



A study on the Finnish consumers' attitudes and interest toward Neobanks

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Abstract

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<p>The regulation and practices of the banking sector changed significantly in the wake of the 2008 financial crisis. This change created an opportunity for FinTech companies to enter the market, which have since both enhanced and disrupted the banking sector and other players in the financial sector. This has given rise to an entirely new bank, Neobanks. Neobanks offer their customers a wide range of banking services and other financial products entirely digitally, without the need for a physical branch network. These fully digital banks have received lots of media attention over the past decade worldwide, and are often referred to as "disruptive", reinforcing the image that neobanks have entered the market precisely to disrupt and change the already existing banking sector with their innovative products and services.</p> <p>The main purpose of the thesis was to find out the awareness and interest in neobanks among Finnish consumers between ages of 18 to 31. Although neobanks are a global phenomenon, this research focused on the Finnish market and Finnish consumers only.</p> <p>The theoretical base on this topic provides information on the forces behind neobank revolution such as FinTech, PSD2, and Open Banking, followed by theory about Neobanks themselves. The knowledge base also explores the factors that influence consumers' purchasing decisions in banking services. The empirical part of the study, which examined consumers' views on neobanks, was carried out using quantitative methods and the survey data was collected through a structured internet survey in November 2022.</p> <p>The results of the study show that consumers are not particularly aware of neobanks or if they are, their knowledge of the subject is very limited. Interest and trust in neobanks vary a lot among respondents, but in general, it can be observed that Finnish consumers are potential customers for neobanks and the author believes that digitalization and technological development will contribute to the acceptance and adoption of neobanks in Finland. To encourage consumers to switch to a neobank, they would need to be much better informed about the neobanking model and its benefits.</p>
Key words Neobank, FinTech, Mobile Banking, Traditional Banking, Open Banking, PSD2

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1 Introduction

The banking sector traditionally made up of a small number of players, has begun to experience unprecedented disruption on a global scale. Banking sector has been disrupted by innovative technology companies from outside the banking sector, which have brought a whole new range of services to the banking sector, but also technologically advanced solutions to existing services. The so-called digital transformation in banking is the result of the constantly changing needs of banking customers and regulatory changes in the market. Neobanks are one result of digitalization in the banking sector. (OECD 2020, 7-8.)

This thesis consists of six chapters. The introduction sets out the background to the topic, the objectives of the research, demarcation, benefits, and risks related to the research. The introduction chapter also includes an explanation of the key concepts that appear in the thesis. The next two chapters form the knowledge base of the thesis, which consists of an introduction to the drivers behind the neobank revolution, the characteristics of neobanks, and finally consumer purchasing behaviour theories. The fourth chapter consists of the research methodology description, data analysis, collection tools, and reliability and validity. The fifth chapter presents the data and results gained from the research. The last chapter of this thesis discusses the key findings, reliability, and validity of the research, further research suggestions, and the author's reflection on learning.

1.1 Background

The almost endless pace of technological development and ever-changing customer demands have created niches in the banking sector. Slowly evolving online and mobile banking services no longer meet the needs of everyone. Neobanks— independent digital-only banks, have been taking over the banking sector recently. (Stuart 2019.) These challenger banks, neobanks, focus on providing more accessible and innovative services, usually through a mobile app. (Bradford 2020.) They are digital banks that offer their services only online, without any physical branches. Neobanks use different kinds of financial technology and artificial intelligence to offer their customers personalized services online, without any physical meeting. This keeps the banks' costs also low. Neobanks either have a banking license or partner with traditional banks to deliver their products and services. (Padmanabhan 2021).

According to EY's latest Global Consumer Banking Survey, neobanks have gained their place in the global markets across generations. Globally, 27 % of consumers have relationships with neobanks, highest adoption rates coming from Latin America (LATAM) and Asia-Pacific region (APAC). (Figure 1.) While traditional banks still maintain most consumers, neobanks are capturing more and more consumers. (Bellens & Lele 2021.)

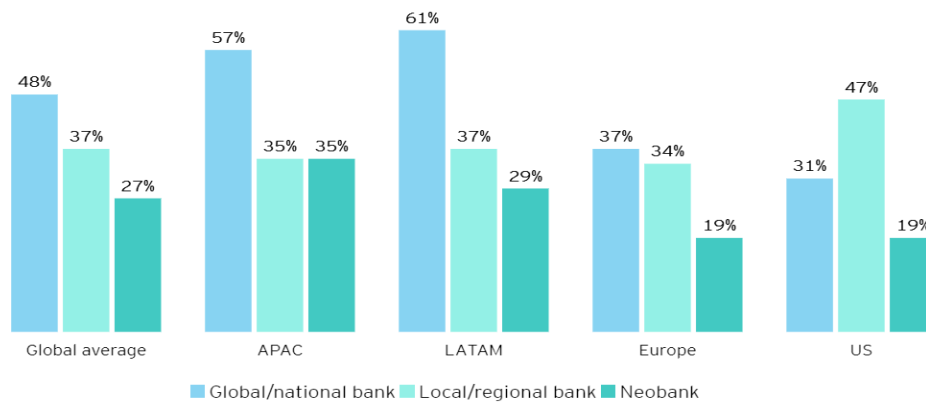


Figure 1. Consumers' financial relationships, by type of bank and region (Bellens & Lele 2021)

In Nordic countries, neobanking is still quite unknown concept. Not everyone is aware of neobanks or their services, which could meet their needs of banking better than traditional banks. Therefore, it is essential to find out more about the concept and whether Finnish consumers would be interested in changing their banking services to neobanks and what kind of services they are expecting to get if so. The author has chosen a target group of young adults between ages 18 to 31 for this research due to the reason that digital banking solutions are becoming more and more important and attractive among people in this age range. According to a consumer survey conducted by a software company called Mulesoft, around half of people between the ages of 18 to 34 states that they have or would be ready to switch banking service provider only to be able to receive better customer service and digital banking experience. The results of the same survey also showed that traditional banks may not be meeting customer expectations in terms of digital banking services which might give opportunities to challenger banks, such as neobanks to enter the markets. (Daniel 2019.)

1.2 Research objective and demarcation

The main objective of this thesis is to map out the awareness and interest in neobanks in Finland. The target group of this study will be young adults between the ages of 18 to 31. The sub-goals are to find out how aware Finnish consumers are about neobanks, whether are they interested in their services, what kind of neobanking services would appeal interesting to them, and whether they are ready to even change their banking into a neobank. Even though neobanks as a concept is global, this research will focus only on Finnish consumers.

This thesis will not be commissioned to any company or party but will be conducted from the interest of the author towards the new innovative banking services and service models. The topic is very current as neobanks as a concept has existed for only around a decade and new neobanks are coming to the European market constantly. The goal of this research is to create valuable information, especially to neobanks and other third parties about consumers' attitudes and prejudices. This way the service providers can use the results when and if entering the Finnish market. The research question (RQ) to address this goal follows:

“What is the attitude and interest of Finnish consumers toward Neobanks?”

To answer stated research question, the following investigative questions (IQs) have been created for the guidance of the research:

IQ1: What is the current state of Finnish consumers' awareness of Neobanks?

IQ2: How likely are Finnish consumers to switch their banking services to a Neobank?

IQ3: What kind of Neobanking services are interesting to Finnish consumers?

IQ4: What factors are limiting the consumers' interest in Neobanks?

The overlay matrix in table 1 below displays the investigative questions and research methods that will be used for them.

Table 1. Overlay matrix.

Investigative questions (IQs)	Theoretical framework	Research Method	Results (chapter)
1. What is the current state of Finnish consumers' awareness of Neobanks?	2.2	Quantitative survey	5.2.2
2. How likely are Finnish consumers to switch their banking services to a Neobank?	2.2, 3.1, 3.2	Quantitative survey	5.2.4
3. What kind of Neobanking services are interesting to Finnish consumers?	2.2	Quantitative survey	5.2.3
4. What factors are limiting the consumers' interest in Neobanks?	2.2, 3.1, 3.2	Quantitative survey	5.2.5

This thesis will focus on the neobanks and how they are perceived among Finnish consumers. This thesis will more specifically take focus on the B2C market of neobanks and the consumer needs and interests in Finland. The empirical part of the research will be conducted on consumers between the ages of 18 to 31. Therefore, the topic is also demarcated by age as it only focuses on young adults.

1.3 International aspect

The international aspect of this thesis comes from the fact that neobanks are operating internationally and are also aiming to attract customers from as many countries as possible. As neobanks operate without a physical network, they can operate across national borders.

1.4 Benefits

A survey will be conducted to gather information about Finnish consumers' attitudes toward Neobanks. It will focus on finding out how well are neobanks known in among Finnish consumers, what kind of neobanking services interest them and what would be their level of interest in the neobanks' services. This information is important for neobanks considering entering the Finnish market or for entrepreneurs interested in establishing a Finnish neobank. The results of this research will be also

useful for other banks and financial institutions in the market as it will give insights into consumer needs and expectations of digital banking services. In conclusion, this thesis benefits neobanks that want to enter the Finnish market, consumers, as their needs are researched, and finally me as a researcher as this topic is from my field of specialization. The author can also use all this knowledge in a future career in the banking industry.

1.5 Risks and risk management

Neobanks as a topic is still quite new and has not been researched a lot which might make it difficult for the author to find academic resources about the topic. Another problem the author might face is getting enough survey answers from the target group. The author believes that the likelihood that these risks occur is high and they will make my thesis process a little tougher. The risks are not dangerous but will have an impact and will require the author more work and dedication toward the thesis. If the risks cannot be managed or overcome anyhow, the author is ready to modify and change the point of view if needed.

1.6 Key concepts

Neobank

Financial institution that offers banking services digitally without any physical branches. (Tilford 2022).

FinTech

Financial technology, in particular information technology, used to provide banking, insurance, financial, investment or payment services. The term also refers to companies developing and using financial technology. (Financial Supervisory Authority 2022.)

Mobile Banking

The banking transactions are carried out through a mobile device. Usually, mobile banking is performed on an app that can be downloaded to the mobile device such as mobile phone or a tablet. (CFI 2022.)

Traditional banking

Traditional banks are banks that provide financial services for their customers, have a specific headquarter, as well as branches all over the country, or their operating area. (Orlando 2020).

Open Banking

The process in which banks and other financial institutions give their customers and third parties access to their banking data. This enables downloading and having information of account balances, transactions, payments, and investments. (Reuters 2021.)

The Second Payment Service Directive (PSD2)

The PSD2 Directive obliged banks and other financial institutions to open their payments and customer interfaces to third parties to share the customers' financial information. The directive also allows third parties to create their own banking services, accounts, and banking cards. The PSD2 also forces businesses to introduce strong customer identification to their customers. (PwC s.a.)

2 Neobanks: The New Innovative Players

In this chapter, the author reviews the theoretical basis of the factors that contributed to the emergence of neobanks such as FinTech and Open Banking followed by a more in-depth look at neobanks, their operating model, advantages and benefits, and what kind of market Finland is currently for neobanks and other FinTech companies.

2.1 Driving forces behind the Neobank revolution

According to Lugovsky (2021), digital transformation in the banking sector can be defined as an organizational, cultural, and operational change that is carried out with a help of developing technologies. In simple words, digital transformation means the transition of banking services to digital form. Digitalization of services also brings more opportunities, flexibility, and automation when it comes to banking services and products that can be offered to consumers. The post-pandemic crisis has also given banks more pressure to adopt new technologies to keep up with the competition in the industry and to create more digital opportunities and services for their customers.

According to the Global Banking Consumer Study 2020 conducted by Accenture, 50 % of banking customers are currently using their bank's mobile app or online website to handle their daily banking which is an increase of 18 % compared to the year 2018. The same study found that customers having a neobank account also increased by 6 % from 2018 to 2020. (Accenture 2020.) This shows that mobile banking is gaining more popularity among consumers and there is a clear market possibility for new digital banks to enter.

The strong impact of digitalization in the financial sector is particularly visible in Finland, which is one of the world's leading countries in terms of digital development. According to a survey conducted by Finance Finland in 2021, almost every Finn has an online banking ID and has therefore the possibility to use banking services digitally. About 45 % of Finns already access their banking services through a mobile application which is an increase from a previous survey done in 2019. (Finance Finland 2021.) In recent years, financial technology companies, or fintech companies, have been also featured prominently. Several new financial services companies have been set up in Finland alone. This is strongly influenced by the European Union's Payment Services Directive, which entered into force in January 2018. As a result, customer account interfaces have been opened from traditional financial industry players to new service developers. (Pietarila 2018.)

The banking sector has traditionally been made up of a small number of long-established players whose service offerings have shaped the available options. However, the banking sector, which has been globally quiet, has seen radical changes in the last years with the arrival of technology companies from outside the banking sector. Technology companies from outside the banking sector have taken advantage of niches in the banking sector, offering consumers their own innovative services. (European Central Bank 2022.)

2.1.1 FinTech

FinTech is a neologism made up of the words financial and technology. There is no universally accepted explanation for the term FinTech, its definition varies strongly depending on the author. According to Gomber, Kosch & Siering (2017, 540-541), FinTech companies, or financial technology growth companies, are the latest trendsetters in the ongoing digital transformation of the financial sector. Knewton & Rosenbaum (2020, 1043-1044) specify FinTech services as more technologically advanced solutions than existing financial services. According to Ernst & Young's Global FinTech Adoption Index report (2019, 5), FinTech can be defined as companies that combine innovative business models with the latest technology to disrupt the financial services industry. Examples of FinTech innovations and phenomena include mobile wallets such as PayPal, customer service chatbots, and cryptocurrencies such as bitcoin. (Financial Supervisory Authority 2022.)

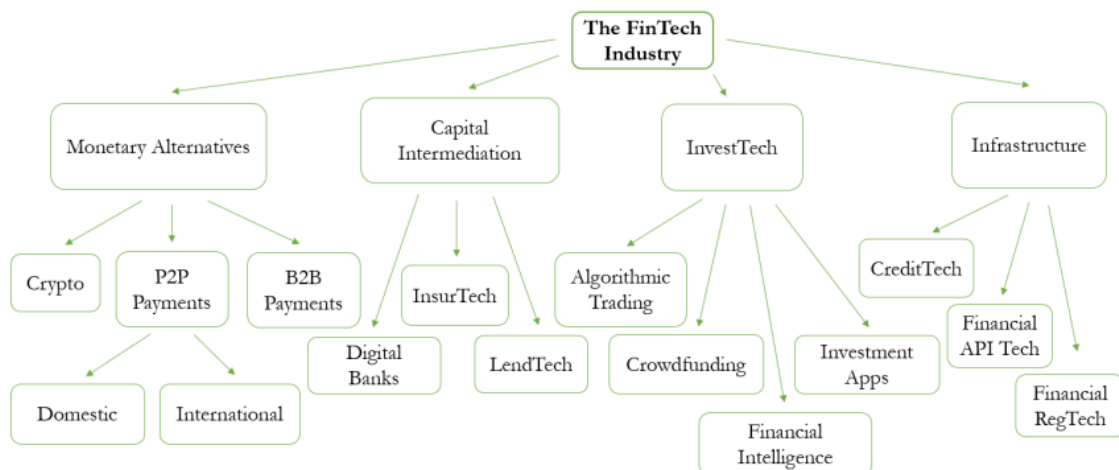


Figure 2. The FinTech Industry (Knewton & Rosenbaum 2020)

Knewton & Rosenbaum divide the fintech industry into four main sectors (see Figure 1.) each of which also includes smaller sectors. Many of these sectors include the word Tech, such as WealthTech, CreditTech, LendTech, and RegTech which emphasizes the use of technological development in the products or services. (Knewton & Rosenbaum 2020, 1046-1049.)

Currently, FinTech is strongly impacting the financial services industry when in regulation, customer experience, operations, and other activities (KPMG International 2019). It increases competition in the financial sector, which makes markets work more efficiently and lowers costs. It can be used to improve existing services. In addition, new and different service options can be provided alongside existing services, and the proliferation of these will bring diversity to the financial sector. Increased diversity reduces the risk to systems. Adding innovations to existing systems can pose operational risks. FinTech can also pose risks from a security perspective. These risks relate, for example, to the security of information systems and private privacy and the prevention of money laundering. New players and innovations in the sector also bring challenges for supervision. So far, market confidence and regulation have catalyzed banks and other traditional financial in favor of the financial sector. (Financial Supervisory Authority 2022.)

Why are FinTech companies proliferating? As the banking sector struggled during the financial crisis of 2008, FinTech companies came to people's attention. (Hill 2021.) According to Saksonova & Kuzmina-Merlino (2018), the 2008 financial crisis highlighted the weaknesses of traditional banks and boosted the growth of the FinTech sector, another factor being the technology-enabled competitive advantages. Ernst & Young's FinTech adoption report (2019) stresses that the popularity of FinTech services is based not only on their technologically advanced implementation but also their low cost. Fintech firms can offer their innovative services at low cost, as a well-constrained and efficient allocation of resources and lean business models allow for low transaction costs. The end-user pays for the service itself, as there are few costs associated with other business activities. Awareness of FinTech, even among nonadopters, is now very high. According to the report, 96 % of consumers worldwide are aware of at least one FinTech service in the field of banking.

Technically, the most significant innovations in FinTech are the open Application Programming Interfaces (APIs) that connect banks to the so-called API economy. These interfaces act as a kind of connecting layer between different systems. They allow the transfer of information between different actors without the need for an external actor to enter their system. When the information flows, the user experience becomes seamless and easy. Above all, they enable the emergence of new digital services and business models. Examples of new services enabled by open interfaces are payment order and account information services and/or open data collected by different actors. In FinTech, open interfaces are strongly linked to the international open banking approach, which aims to open banking interfaces to software developers and start-ups, and to invite them to develop interfaces and new services based on them in collaboration with banks. (Varteva 2017.) Open Banking as a concept will be discussed more in the following subchapter.

2.1.2 The Second Payment Service Directive (PSD2) & Open Banking

Creating innovation in the field of banking can be challenging because of the prevailing regulation. Regulatory authorities do acknowledge the changing needs of customers and the possibilities in technological development. The Second Payment Services Directive (PSD2) is the most significant example of a regulation change that has opened the banking sector even more to innovation. The directive was passed on in 2015 by the Council of the European Union and the EU member states had time until September 2019 to fully implement the directive into the national regulation. PSD2 included updates to the old Payment Service Directive (PSD) which was originally adopted in the EU in 2007.

The goal of the PSD2 directive was to increase the security of online payments in the EU and to add more innovation and competition to the payment market. The changes were essential for the banking and innovation sector. The directive aimed at improving the field for new payment service providers including FinTech companies. In general, the new regulations were created to create more innovation, efficiency, and competition in the EU payments market. PSD2 also took the EU one step forward toward a more digital market. (European Commission 2019.)

The Second Payment Services Directive broadened the scope of payment service providers by introducing third parties to the sector. The changes introduced by the directive removed the banks' exclusive right to access bank customer data. Third-party service providers (TPP) can now, with the user's permission, access the user's bank data through retail banks' open programming interfaces (APIs), through which the bank data is transferred to third-party service providers such as different Fintech companies. (Hundal & Zinakova 2021, 14.)

The openness of banking data created a new era in banking called Open Banking. The term Open Banking refers to a new way of working where banks open their customer interfaces to third parties. This allows third parties to provide banking services that can be accessed using bank accounts already held by the customer. The role of open banking is to create transparency in the information held and shared by banks. In the past, the use of bank data has been based on agreements between third-party operators and banks. As a result, of the Second Payment Service Directive, banks now have the obligation to provide their data to all third-party service providers. (Financial Technology Partners 2020, 18–19.)

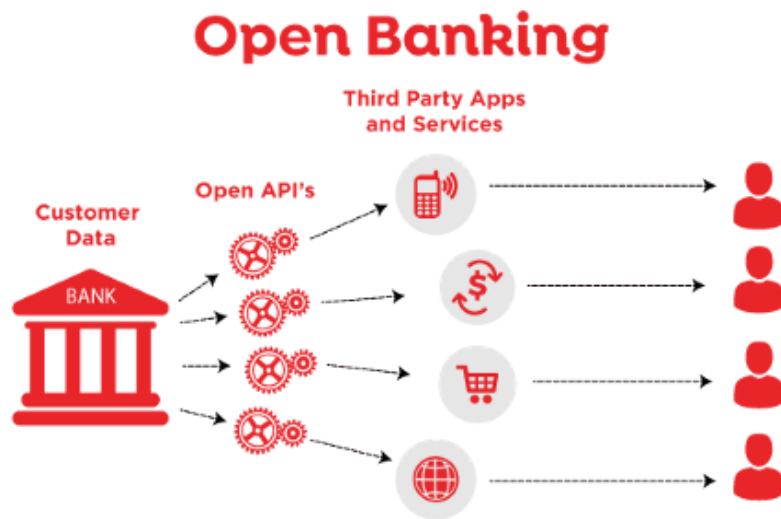


Figure 3. Open banking (Kiskyte 2022)

As figure 3 above shows, banks are exposing their customers' data, with their permission to third-party apps and services via open Application Programming Interfaces (APIs). In simple terms, APIs can use programming interfaces to communicate with other software and exchange information. In the case of open banking, banks provide their programming interfaces to authorized financial service providers. These programming interfaces contain various information such as the account holder's name, account type, currency, and transaction history. This information is only available to third-party service providers when the account holder has explicitly agreed to share the information. Consumers usually give their permission online by accepting the terms and conditions of use. Once consumers have given their permission to the sharing of their data, third parties can access the data through programming interfaces. The development and implementation of programming interfaces is dependent on the banks. (Kiskyte 2022.)

Banks themselves also pushed the issue of opening interfaces because they saw the potential in FinTech cooperation. Before the Second Payment Services Directive, banks had almost exclusive access to existing financial services. Due to this regulation change in the FinTech industry, FinTech companies' adoption and collaboration with traditional banking made it possible for FinTech start-ups to create competitive products for the banking sector. An excellent example of a partnership between traditional banks and Fintech is neobanks. (Rogers 2021, 12-13.) In the next chapter, the author will next look at the neobanks' characteristics, advantages, risks, and the current landscape neobanks have on the Finnish market.

2.2 The key characteristics of Neobanks

Mobile banking has become a key player in the financial industry. As consumers nowadays use their mobile devices to access all services they might need, they are increasingly demanding easier access to their banking through their mobile devices as well. Throughout history, the banking industry has been led by big traditional banks, but due to the EU's changing regulations, there is now a possibility for new entrants in the market. (Muldrew 2020.) As the financial sector is starting to focus more and more on customer experience and satisfaction, the gap between traditional banks' offerings and customers' expectations has widened. Most of the major banks now offer mobile banking, but the needs of consumers have also created a completely new business model: Neobanks.

2.2.1 Definition of Neobanks

Neobanks are financial organizations that work exclusively online without any physical branches, and all the services provided are completely digitalized. Neobanks offer a mix of different banking services such as opening savings accounts, debit cards, and money transfer services, 100 % online. Neobanks' applications are usually straightforward which makes it easier for the consumer to understand and manage their finances. While FinTech companies usually specialize in one specific solution such as investing, neobanks want to offer a combination of financial services for their customers which gives them a chance to replace traditional banks. (Barba 2018.)

With a help of digital capabilities, innovation, and consumer touchpoints, neobanks have been able to transform how banking services are being delivered to consumers. (Paliwal 2021.) The customers of a neobank can perform their banking operations from simple money transfers to asset management through the neobank's app or website. Neobanks operate either independently or via a partner bank, depending on whether the bank has its banking license or not. (Surf 2022.)

Due to the supportive regulations from European Union, FinTech companies have been able to enter the market easily. The first Payment Service Directive (PSD), followed by the Second Payment Service Directive (PSD2) made it possible to share information about consumers between traditional banks and third parties. This way neobanks can gather data on banking consumers and offer them similar services to traditional banks. The acceptance of neobanks also increased after the publication of the new regulatory framework as consumers perceived the neobanks' services as more accessible and secure. (Prove 2022.) Figure 4 below gives an oversight of different elements that have affected the emergence of neobanks in Europe.

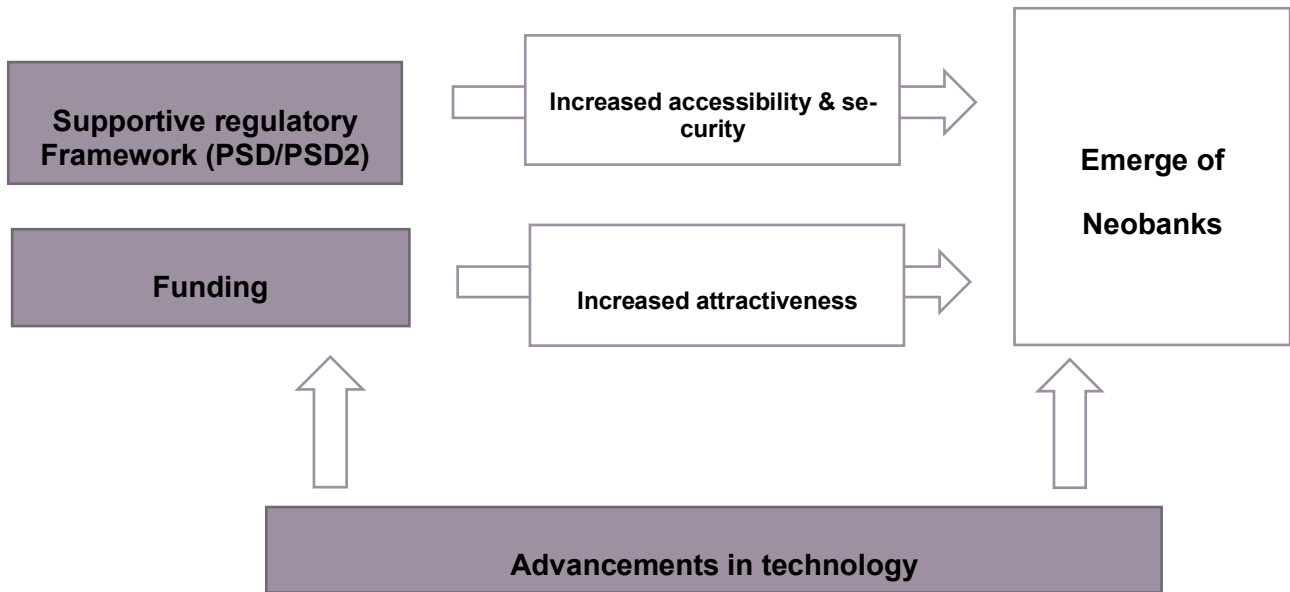


Figure 4. Elements influencing the emerge of Neobanks in Europe (Adapted from Prove 2022 and Green 2021)

Neobanks often start to operate with a simple product that enables customers to do payments or transactions. After that, they expand their services and add more features to services such as stock exchange, insurance, or cryptocurrencies. The whole process from opening an account to doing transactions, exchanging currency, or using money-tracking services – is managed through digital applications. Also, neobanks gather data from multiple different sources to produce tailored products for their customers which operate under one, simple interface. Usually, the services and products provided by neobanks are quite like traditional banks with some limitations. Having a more limited number of services and products available, neobanks can save costs and offer their customers affordable fees. (Prove 2022.)

One big difference to a traditional bank is that neobanks rarely offer any credit to their customers. This is because they want to avoid risk and save on costs. (Pritchard 2020.) Most of the current neobanks have started their business by simply offering bank accounts and cards which are managed through a mobile app. Nowadays, these banks have been expanding their offering to for example lending and saving services. The users are also often able to access other financial service providers such as stock trading companies through neobank's in-app marketplaces. (Oliver Wyman 2019.)

Traditionally, neobanks centralize functions that require multiple applications or services under a single application solution. Instead of online banking, mobile banking, investment, and wallet apps, all services are available in one single app. (Knewton & Rosenbaum 2020, 1046-1049)

Figure 5 below is an overview of the types, functions, and features of neobanks. This figure is a simplified illustration of the industry as every neobank is different whether it comes to business models or services provided. However, this is how neobanks often present themselves to private customers. The illustration is based on the material sought from multiple neobanks' websites as well as from authors Pritchard (2019), Barba (2018), and Hopkinson et al (2019).

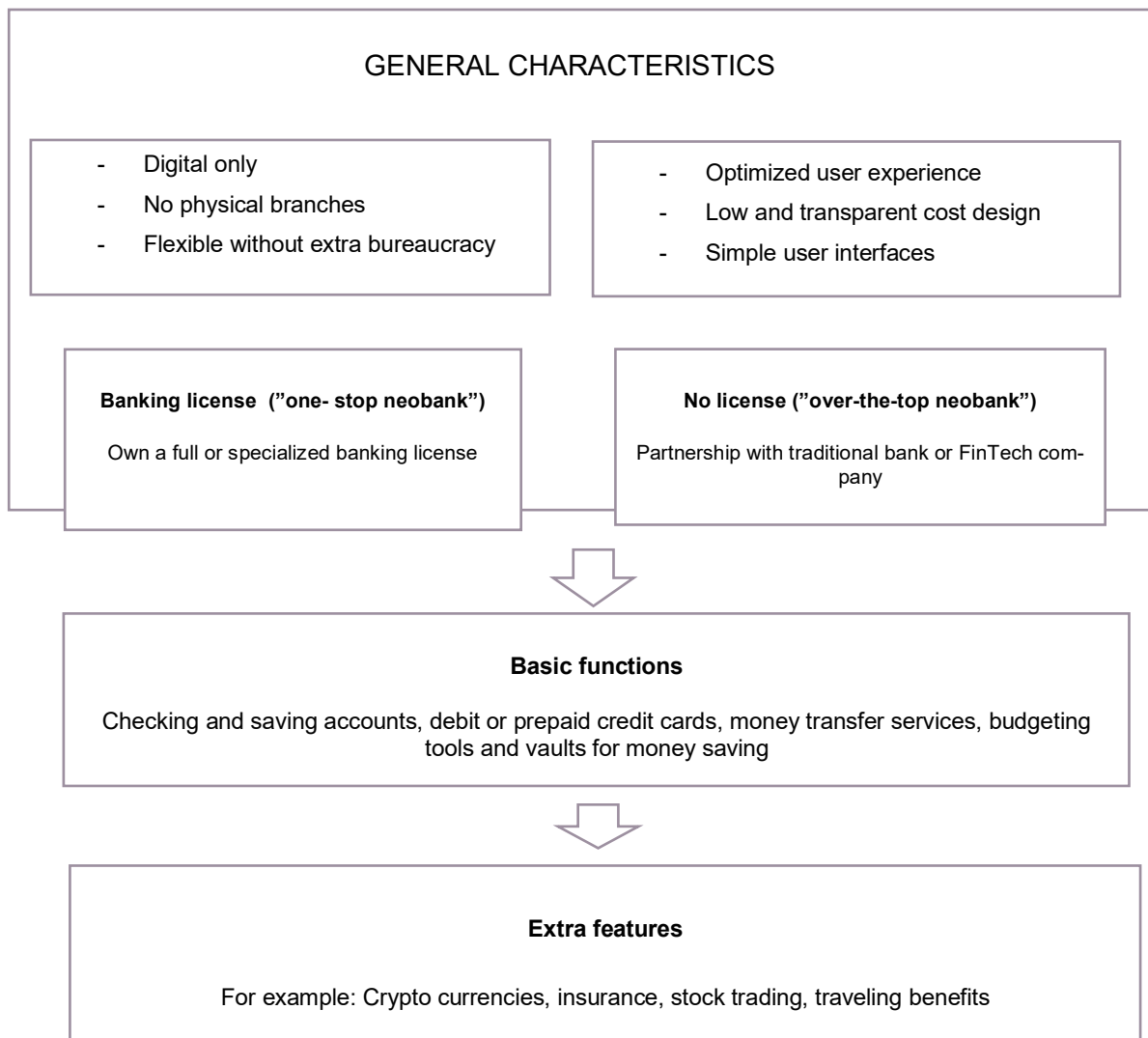


Figure 5. Overview of types, functions, and characteristics of neobanks (Adapted from Prove (2022) and information from several neobanks in the Finnish market (Revolut & N26 2022))

2.2.2 Operation of Neobanks

As we can see from the previous figure 5, there are two types of neobanks on the market, ones “with a banking license” and ones “without a banking license”. Neobanks with a banking license can provide a total variety of banking services with their products. These neobanks have received their banking license in a specific country and are consequently beneath strict supervision and regulation of the specific country. This makes these kinds of neobanks a “onestop” bank as it is not dependent on any partners. Good examples of licensed banks are Revolut and N26 which can become the primary banks for their customers as they can offer multiple different services and products to their customers without being attached to any additional partners. (Prove 2022.)

“Over-the-top” neobanks on the other hand do not have a full banking license. This brings some restrictions on the product offering to the customers. These kinds of neobanks need a traditional bank to funnel their services to the customers. Because of this, these banks usually focus on some specific feature or service they are providing and concentrate on the customer relationship as they are collaborating with a traditional bank or other FinTech company to make sure that for example customers saving are ensured according to regulatory criteria in the geographical area. Examples of neobanks without a full banking license are Chime and Yolt. (Prove 2022.)

No matter which business model a neobank is using, the operation of a neobanks is more efficient when compared to traditional banks. Having no physical branches but instead investing in the product development and user experience reduces costs significantly. Neobanks are also free of additional legacy systems that traditional banks must comply with. Because of the lack of unnecessary laws and regulations, neobanks can respond quicker to new industry trends and develop their products and services quickly. Neobanks are more concentrated on consumer needs and designing all their products and services for consumer needs and wishes, whereas traditional banks create their products to optimize the profitability of the bank. (Emerging payments 2020.)

The new service offerings of neobanks are often enabled by FinTech companies (see Figure 6). Partnerships with FinTech companies are enabling a wide range of activities for neobanks that would not be possible for them without collaboration. For cross-border payments, neobanks can use new alternatives to the SWIFT payment system used by banks. For example, a partnership with TransferWise enables a neobank customer to make international payments quickly and cheaply in dozens of different currencies. Another example of the collaboration between FinTechs and neobanks is Kasko that can offer neobanks customers insurance services. Neobank’s mobile application shows the insurance services available, but if a customer wishes to purchase services from them, the application usually takes the customer to the insurance company’s website to finish the purchase (Financial Technology Partners 2020, 35.)

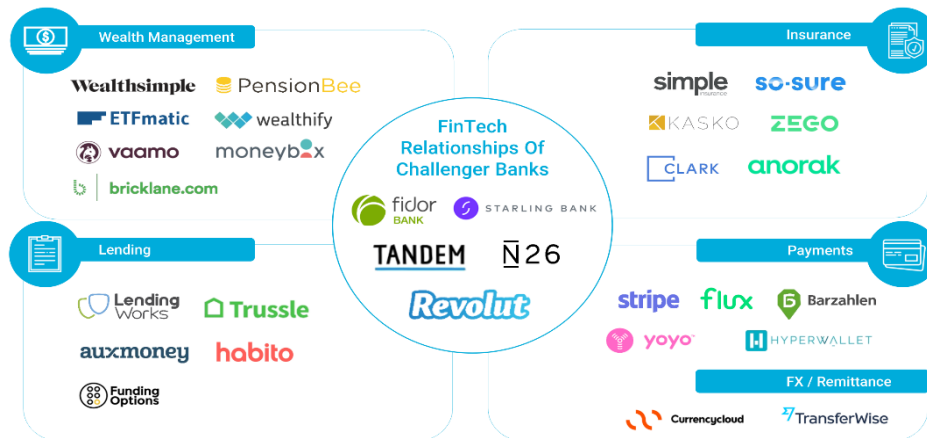


Figure 6. FinTech Relationships of Challenger Banks (Financial Technology Partners 2020)

Open Banking plays an important role in the operations of neobanks. Neobanks aim to offer a single banking and financial management super-application to their customers. Acting as a super application for financial management is based on the versatile storage of user account data in the neobank application. The use of account data is made possible by the challenger banks' licenses and joint work with fintech companies providing Open Banking programming interfaces (Knewton & Rosenbaum 2020, 1046 & 1057.)

Nowadays, with the advances in technology, there are more and more neobanks becoming popular – especially in Europe. The high number of investments and the increasing number of new challenger banks attest to the growing interest in the banking industry. (Abhishek 2019.) Even though some of the first digital banks emerged in the United States, the growth of the digital bank sector in the US is lagging – while in the meantime, Europe has given rise to the biggest number of successful neobanks. One big reason for this is the more supportive regulatory environment that the EU has created to help FinTech companies to succeed. Since 2011, the customer base for neobanks in Europe has grown by nearly 15 million people. At least 2 million Europeans have chosen to use neobanks as their main bank and have closed their accounts with traditional banks. (Prove 20

When looking at figure 7 below, we can notice that neobanks have been part of the European market already in 2015 but since 2017 their popularity expanded rapidly. Revolut, Monzo, and N26 have been the three most successful neobanks in Europe, Revolut having the highest number of downloads, around 25 000 000 in April 2022.

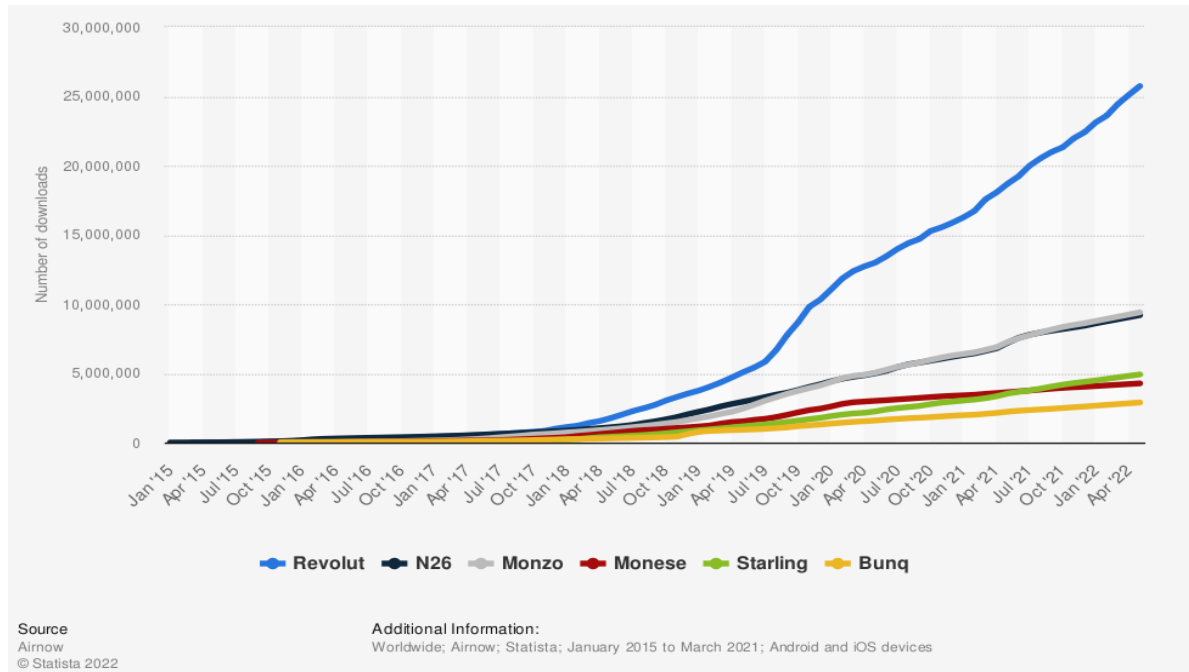


Figure 7. Forecasted number of downloads of European app-only banks from January 2015 to April 2022 (Statista 2022)

Kent & Makarov (2019, 3-4) emphasize that the rapid growth of neobanks has been mainly driven by the straightforward opening of banking services for customers. The absence of physical branches means that the customer does not need to go to a physical bank to open an account. In fact, in many neobanks, a customer can open an account instantly through his or her device or online. Opening an account also breaks traditional country borders.

2.2.3 Neobanks' risks and opportunities

While more neobanks are entering the financial markets, they need to consider as many risks as opportunities to secure their future.

The most regularly appearing risk for neobanks is the risk of cybercrime. According to Redrup (2019), neobanks are facing a great risk of cybercrime compared to traditional banks. The main cause for this is the difference in back-end security. Traditional banks have more resources to sustain their security infrastructure compared to neobanks. Neobanks have received criticism for not developing cyber security to a high enough level before releasing their product and smartphone application to the market. For example, in 2019, a British neobank called Monzo, faced an unpleasant situation when it got revealed that 480 000 customers' PINs had leaked to the internet after not being stored appropriately (Sky News, 2019). This example shows that as most neobanks have entered the market recently, they are also more likely to make mistakes related to cyber security in comparison to traditional banks. According to research conducted by Accenture (2019), the financial expenses related to cybercrime have increased significantly during the last few years. Even though neobanks' innovation and growth can be seen mostly as positive in the economy, there are risks in innovation that need to be taken into consideration when viewing neobanks as a concept.

Branchless banking can be seen as another risk and disadvantage to some level. Despite the convenience of having all bank services available through a smartphone, it does not mean that all consumers prefer this method of banking. Some consumers like to get to know their bank and build a strong relationship before for example applying for a mortgage or a big loan. When applying for loans, interactions with real humans are often preferred to make sure that both parties are clear with their own, and the other party's intentions. This same situation applies to situations where consumers have a problem with their banking, many consumers still prefer to walk into a local branch office instead of waiting hours in customer service lines online. The result of having no branches at all will eventually lead to consumers losing a physical connection with their banks. (Natter 2019). According to a study about branchless banking, the complete loss of a bank branch has indeed faded the communication between consumers and the bank as well as increased the confusion among the consumers about where to complain when something is wrong. (CGAP 2014.)

In addition to the digital-only approach, Hopkinson, Klarova, Turcan, and Gulieva (2019, 1-3) state that neobanks differ from traditional banks with four main advantages: customer experience, innovative features, money management, agility, and low-cost structure and transparency.

An upper-level customer experience belongs to the core business of neobanks. Neobanks offer services and products that can be accessed from anywhere at any given time of the day. For example, a new account can be opened in minutes and international money transfers are possible through a mobile application, which traditional banks do not usually offer to their customers. Neobanks are making their application interfaces as simple and intuitive as possible to keep the usage of an app as easy as possible. Customers also benefit from lower charges on services as well as from inexpensive monthly fees.

Neobanks aim to offer their customers innovative features and money management tools. The goal of this is to help customers to manage and control their money better compared to traditional banks' digital applications. These features include for example real-time notifications on expenses and other insight tools to follow spending habits as well as the feature of automatically sorting money into different categories.

As neobanks are not tied to any physical branches and legacy systems, they can focus more on the implementation of new technology. This allows them to respond to market changes quickly and apply new features to the applications more easily. The absence of physical locations also decreases neobanks' costs and fees to their customers remarkably. In comparison to traditional banks, neobanks also aim to be as public and transparent to their customers as possible. This means giving customers a full overview of all related costs and fees as well as a view of their operations. They also attempt to communicate with their customers more directly compared to traditional banks.

2.2.4 Neobank landscape in Finland

Even though this thesis is not focusing on any specific neobanks on the market, it is good to understand the current FinTech and Neobank landscape in Finland and have a look at a couple of the neobanks operating in Finland.

In 2019, 91% of Finns used the internet for online banking. The COVID-19 pandemic which emerged globally in 2020, only sped up the process of banking digitalization (Statista 2022). According to the Bank of Finland (2021), around 50% of Finns reduced the use of cash during and after the pandemic and most of them believe that the use of cash will keep on reducing in the future. Because of this, flexibility and the absence of physical bank branches have created digital banks an opportunity against traditional banks. Over the last few years, Finland has been providing a good base for FinTech innovations and operations for many years. Finland is an attractive country for FinTech companies due to its high technological expertise, easily approachable firms, and well-managed compliance culture. The stable regulatory environment including membership in the EU and European banking union also provides a good platform for new financial services providers. The Finnish FinTech market has been growing significantly in recent years. Finland has a total of 200 FinTech companies in the fields of payments, blockchain, investment, data & analytics, insurance, wealth management, and security. The revenue created from those companies was 1.2 billion euros in 2020 and the investments made to the FinTech industry were around 600 million euros. (Business Finland 2020.) The most successful FinTech companies in Finland are focused on software development or payments. During 2021 however, the number of new Finnish neobanks has also increased (Manninen, Karlsson & Mathur 2022, 332-335).

One of the most popular neobanks operating in Finland is a London-based neobank called Revolut. Revolut is a mobile phone bank that started operating in London in 2015 and is currently one of the fastest-growing European mobile banks with over 20 million users worldwide. Revolut offers its customers banking services such as EUR and GBP accounts, currency exchange services, cryptocurrency exchange, and debit cards. (Revolut s.a.) In January 2022, Revolut attracted over 25 000 Finnish customers (Helsinki Times 2022). Another neobank that has received popularity in the Nordics is a German bank called N26. N26 was originally founded in 2013 and has now around 5 million customers worldwide. N26 provides banking plans to both individuals and businesses. (N26 s.a.)

Holvi, the payments service provider for self-employed people, is a good example of Finnish expertise in FinTech. Holvi was originally founded in Helsinki in 2011 but was acquired by an international bank called BBVA in 2016. BBVA sold Holvi to Keru Fintech Investments company in 2021, a new FinTech company founded by Holvi's original co-founder. Holvi provides business accounts with IBAN for entrepreneurs but also personal accounts for individuals. For businesses, Holvi account offers for example reporting, automated accounting, invoicing, and tax preparation services as well as Mastercard that can be used for business trips. Even though Holvi cannot be defined as a bank, it has received a license from the Financial Supervisory Authority of Finland (FIN-FSA) to be able to operate as a payment institution. (PaySpace Magazine 2021.)

Fellow Bank is another good example of a Finnish FinTech company that has created its place in the financial market. Fellow Bank is a Finnish 100% digital bank that provides lending and banking and other financial services to individuals and SMEs. It also offers savers a return on their deposits. The bank was founded in April 2022 when a lending platform called Fellow Finance and Evli Banking services merged. Originally, Fellow Bank is a FinTech company that applied digital technology to its operations to challenge traditional banks. (Fellow Bank s.a.)

In conclusion, Finland has one of the world's leading fintech sectors due to excellent collaboration between banks, other financial institutions, and start-ups. Overall, Finland is seen as one of the most digitalized societies in the European market and therefore as a potential market for new FinTech companies and hence Neobanks.

3 Consumer Purchasing Behaviour in Banking

Consumer purchasing behaviour and attitudes towards banking services differ strongly from purchasing other kinds of services. Banking services do not usually appeal as particularly interesting purchases for consumers, but more as complicated products which are difficult to compare for an average consumer. Purchasing banking services rarely bring any immediate pleasure or benefit to a consumer. Banking services are often perceived as mandatory purchases that consumers would not like to purchase if they did not have to. Because of this, most consumers have little interest in purchasing banking services in general, making them passive buyers of banking services. (Ennew & White 2013, 138.)

In today's banking world consumers are expecting more flexible and open services in the banking sector. The decision to buy is no longer based to the same extent on the service provider, but rather on the characteristics of the product or service itself. This also means that the importance of the traditional bank's reputation and trust in the bank in the choice of the service provider is declining. This will become particularly important as the current younger generation, the so-called "digital natives", age, as they will demand immediate access to services via new technologies such as smartphones and tablets and will be very aware of the cost of services. (Ernst & Young 2021.)

3.1 The importance of trust in banking

Trust plays a very important role when choosing a service provider, especially in the banking sector. Consumers require stability, security, personalized services, and advice to be able to trust their financial service provider. In traditional banking the trust is usually built between a client and an advisor, for example when a client visits the bank branch. The trust building process becomes more complex in digital banking environment as the customer cannot assess easily whether the banking advisor's message or service is reliable. (Schmid 2020.)

Neobanks are gaining more traction in the banking industry due to their technologically advanced products and more personalized user experience. But when it comes to consumer trust, traditional banks are still more trustworthy to many consumers. This is stated in Ernst & Young's NextWave Global Consumer Banking Survey from 2021 where it was found out that up to 80% of global customers who are using traditional banks, trust their banking service provider, neobanks having a trust percentage of around 65%. This means that traditional banks have a slight edge on their competitors, but neobanks are not far behind. (Bellens & Lele 2021.)

3.2 The process of buying banking services

According to Ennew and Waite, the consumer's decision to purchase banking services is the result of an evaluation of the available information. In their theory, a consumer is seen as a rational buyer who is logical and straightforward in his purchasing decisions. A consumer is a problem solver who goes through different levels in the process before purchase. The purchasing process begins when the consumer recognizes the problem and is motivated to do action for a change in the situation. To solve the problem, the buyer starts gathering information from his memory, external source, or both. Based on the collected information, the buyer evaluates the options available and makes the purchase decision. After the purchase, the consumer evaluates the decision made, and whether he is satisfied and ready to purchase the same product or service again (Figure 8). (Ennew & Waite 2013, 140.)



Figure 8. Consumer purchasing decision process (Adapted from Ennew & Waite 2013)

3.2.1 Recognizing the problem

Consumers have many different needs when it comes to banking services, which the service providers need to meet. These needs include for example the need to make payments, the need to take a loan, the need to accumulate wealth, and the need for information and advice. For many consumers, the actions for these kinds of needs are not particularly interesting and dealing with these needs might involve an uncomfortable topic such as a relative's death. Due to the uncomfortableness of the topic, the consumer might not want to recognize all his needs. An example of such a situation is a consumer taking out a large mortgage who may not want to identify the need to insure the repayment of the loan in case of serious disability. Also, due to the complexity of many banking services and the lack of transparency in the marketing of those services, consumers do not necessarily understand how the specific service will solve their problem. For these reasons, consumers are not particularly good at detecting problems and are therefore relatively passive bank customers. (Ennew & Waite 2013, 140-142.)

3.2.2 Collecting information

Data collection describes the process during which a consumer gathers relevant information to solve a previously recognized problem. The information is often gathered from own memories or external sources. External sources can be marketing communications such as social media, other consumers, or third parties. As the nature of banking services includes consumer passivity, the information search is most likely to be quite limited. If the consumer himself does not have previous experience with the specific banking service, is very likely that the information search will be limited to other consumers' experiences and the general perception of the service provider. Therefore, there are problems with information reliability and availability as many of the banking services are often tailored to an individual consumer. Thus, a recommendation or a comment from another consumer may not be applicable to the consumer searching for information. (Ennew & Waite 2013, 143-144.)

3.2.3 Comparing alternatives

Due to the weak availability of information, consumers are facing challenges even in the simple act of collecting data. For the same reason, the comparison between different banking services is challenging. This is because banking services are more complicated processes than individual products which might make it challenging for consumers to compare services and make decisions based on their comparisons. In many banking services or products, consumers have difficulties assessing the results of the purchase decision, even after the service has already been in use. (Ennew & Waite 2013, 144-145.)

3.2.4 Purchase decision

Logically, the purchase decision is the result of a consumer's comparison between different options. Often, however, an external party is taking part in the purchase decision, such as the bank's representative. The representative has possibly given advice and sales efforts to introduce the service or product to the consumer. These kinds of sales efforts can include for example advising on different investment products or providing guidance in the use of online banking. Therefore, we could conclude that sales efforts have an essential impact on the purchase decision of a consumer, even if the consumer himself would have been active in gathering the information and comparing the alternatives. Despite the development of technology in the banking sector, human contact in the purchase of banking services is still a key element in the process of purchasing banking services. This has been highlighted in the Accenture survey which found that 86% of the respondents consider it important to open a bank account together with a bank advisor. (Ennew, Waite 2013, 145-146.)

3.2.5 Post-purchase evaluation

As mentioned previously, the impact of a purchase decision on the consumer can be evaluated over a longer period. This applies to most of the banking services available and perhaps because of this, consumers are not particularly active in initiating the purchase process. The consumers' knowledge and the acts based on that knowledge can conflict sometimes. For example, a consumer might be aware that the basic banking services (account, debit card, and online banking credentials) are cheaper from another service provider but may still be unwilling to act to change banks. Even though the trend of switching banks has been on a rise last couple of years, consumers' willingness to change their banking service provider is still relatively low. (Ennew & Waite 2013, 146.)

4 Research methodology

In this chapter, the author will discuss the research design used, population and sampling methods, ways how the information will be collected, and finally the reliability and validity of the thesis.

4.1 Research Method & Design

This research was done by gathering data and information from existing sources such as books, articles, and previous studies, followed with a quantitative survey. A quantitative method allows for gathering data from a larger population about a phenomenon, issue, or problem, and the results are presented in numeric form. This research method will be useful in this research when wanting to collect as many people's opinions and attitudes as possible. (Garbarino & Holland 2009, 7-8) The research design of this thesis is shown in figure 9 below.

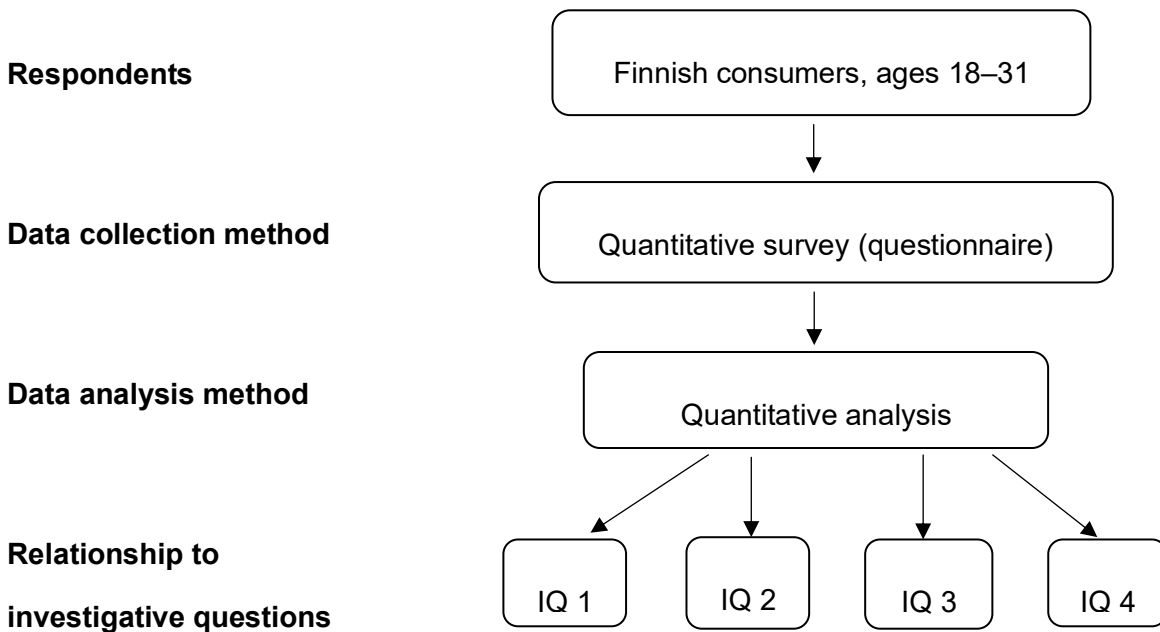


Figure 9. Research design

Quantitative research compiles numerical data to test relationships between different variables. Some ways to collect quantitative data are questionnaires, surveys, or database reports. When the goal of the research is to answer questions such as why, how, and how often, the quantitative research method is the appropriate one to use. The goal of quantitative research is to compare, explain and predict different experiences, phenomena, or things. Both methods seek to find specific patterns in the data collected. Qualitative and quantitative data are both good methods of research to support the already existing theory but also in creating new information. (Hoover 2021).

A questionnaire is a commonly used data collection method when surveying to gather data. It is an effective tool to receive answers from a larger population as all the respondents answer the same questions. However, the questionnaire questions need to be carefully chosen so that needed data for research can be found which can cause challenges to the author. The design of the questionnaire should be different depending on how it is delivered or collected and on the amount of contact the researcher has with the respondents. The respondents usually complete self-completed questionnaires and they can be distributed to respondents through the Internet. (Saunders, Lewis & Thornhill 2016, 439-440.)

The goal of this thesis is to find out and describe how Finnish consumers perceive neobanks as a concept. For this reason, the research method chosen is going to be quantitative survey-research. The quantitative research method suits this specific topic as the purpose of this thesis is to find out the level of awareness and interest towards neobanks among Finnish consumers and investigate reasons that affect those variables.

The questionnaire will ask various questions about neobanks and consumer habits regarding mobile banking. The questionnaire will be self-completed and distributed to the respondents via the Internet and social media channels. The target group of the survey is young Finnish consumers, from ages 18 to 31 and from different educational backgrounds.

4.2 Population and Sample

The target population of the research is Finnish consumers between the ages of 18 to 31. The target group was limited to this due to their understanding of mobile banking services, as neobanking as a concept lies entirely on digital solutions. In addition, according to Statista (2021), 92 % of the people aged between 16 and 24 and 99 % of the people between ages 25 to 34 were using online banking services.

The data was collected through a questionnaire survey, which was created with a help of the Webropol tool. The sampling method used in this research was self-selection sampling. Self-selection sampling is a method based on volunteering where individuals are allowed to choose whether they would be interested to take part in the research. The survey needs to be publicized through appropriate media channels or asking people individually to take part. Data for the research is therefore collected from those who answer the survey. (Saunders, Lewis & Thornhill 2016, 303.)

4.3 Data Collection

A survey is a research strategy designed to gather information from many selected subjects by interview or questionnaire methods using a representative random sample. The starting point of this strategy is to determine the prevalence, occurrence, or distribution of certain characteristics, phenomena, or events. The results obtained are intended to generalize the results obtained from the sample to the whole population of the study. Survey research can be carried out using different methods of analysis. (Laiho & Pietilä 2007.)

Data is collected through primary and secondary data collection methods. The data in this thesis will be sourced through numerous channels. The source material for the theory is mainly based on literature and internet sources. The empirical part of the study will be carried out through a structured electronic survey of consumers to investigate consumers' perceptions and attitudes toward neobanks. The survey will be conducted through the Webropol tool. The survey will be sent to the participant through social media channels such as LinkedIn, WhatsApp, and Facebook.

4.4 Reliability and Validity

When considering the quality of the research, reliability, and validity are often brought up in conversation. According to Saunders, Lewis, and Thornhill (2019, 213-214) **reliability** as a concept refers to the consistency of the researcher. If the researcher ends up with the same research design that has been done earlier including the same finding, the research can be seen as reliable. When considering reliability, a distinction between external and internal reliability can be made. External reliability examines whether the same data collection techniques could produce the same findings if the research was repeated by the same author or by a different researcher. Internal reliability on the other hand refers to the consistency of a researcher during the research project. Some of the risks in the reliability of research are the following: participant bias, which means that the participant includes a false response, participant error, any factor that can change the participant response, researcher error, any factor that can change the researcher's perception of the answers and lastly researcher bias, where the researcher might modify the answers of the research to be able to present specific consequence.

The validity on the other hand refers to the level of appropriateness of the measures used in the research, the accuracy of the analysis, and to the generalizability of the findings. There are three categories in validity of the research. Internal validity, criterion validity, and measurement validity. Internal validity measures how well research is conducted and structured. Criterion validity is often brought up in questionnaire-based surveys. It measures how well are the questionnaire questions measuring what they are intended to measure so that an accurate conclusion can be drawn from

the results. Measurement validity refers to the extent to which the result of the research represents the intended variable. Types of measurement validity include content validity, face validity, construct validity, and predictive validity. All these types are designed to assess the intention of research. (Saunders & al. 2019, 213–215.)

5 Results

The ultimate purpose of this thesis was to explore how aware Finnish consumers are of neobanks and whether there is interest in neobanks' services. These questions were answered through a structured survey of consumers, with questions covering the research problem and all its sub-problems (Table 1.). The survey aimed to collect a sample of consumers on a non-random basis and thus respondents were collected via an open internet link.

The target population of the survey was consumers aged between 18 and 31 with experience in using electronic banking services, such as mobile banking. The reason for limiting the population to be surveyed and targeting the analysis of the survey results to this group is that neobanks as a concept is entirely based on digital solutions.

The questionnaire was created using the browser-based survey and reporting tool Webropol. Survey respondents were collected through social media by sharing an open web link to the survey on Facebook, WhatsApp, Reddit, and LinkedIn. It was clearly instructed that the respondent needs to be 18-31 years old to participate in the survey. The survey was distributed on social media channels: the author's LinkedIn and Facebook profile and different WhatsApp groups. The link was published on the 24th of October 2022 and the link was open until the 2nd of November 2022. In all platforms, the survey reached a total of 997 people and there were 56 respondents all together which makes an answer percentage of 5.62 %.

5.1 Structure of the questionnaire

The full questionnaire is attached as Appendix 1 to this thesis. The questionnaire was divided into 4 different sections and contained a maximum of 15 questions. Some questions were hidden from the respondents and opened as follow-up questions depending on what the respondent had answered to the previous question. For example, if a respondent answered that they do use a mobile app for banking, they were naturally not asked reasons for not using mobile apps for banking.

The first section consisted of an introduction to the questionnaire, which explained to the respondent the subject area to which the survey is related and the estimated response time. The second part of the survey consisted of questions 1-7. In the second part, respondents were asked exploratory questions such as gender, age, and habits regarding the use of mobile-only banking. The purpose of the questions in this section was to enable a comparison between different groups of respondents during the analysis of the results.

Questions 8-11 formed the third part of the survey which focused on figuring out the current level of consumers' awareness of neobanks and their interest in learning more about them. In the first question of the section, the respondent was asked about his/her perception of neobanks. The follow-up questions in this section were not open to respondents who had never heard of the term neobank or had heard of it but did not know what it meant. The last part of the survey examined whether Finnish consumers are interested in changing their banking into a neobank in the future and if so, what kind of services they would be most interested in.

5.2 Results of the questionnaire

The survey responses were compiled and observed using the survey and reporting tool Webropol and the spreadsheet program Excel. The summaries of the responses of the respondents to the questionnaire are tabulated in Appendix 2 of this thesis.

5.2.1 Introduction of the survey sample and background

A total of 56 consumers in the target group responded to the survey. 57.1 % of the survey respondents were female and 41.1 % were male. 1.8 % preferred not to answer to the question about the gender. The response rate of women was slightly higher than of men, as women accounted for more than half of the respondents. In the author's social media platforms, the number of women may have been higher which could have resulted on the higher level of female respondents in the survey. The age range of respondents was evenly spread and there were answers from all age groups. The largest proportion of respondents (46 %) were aged between 25 and 28 and the smallest group of respondents were aged between 29 and 31. The figure 10 below shows the percentages of the respondents' age. The age range of respondents was evenly spread and there were answers from all age groups. The largest proportion of respondents (46 %) were aged between 25 and 28 and the smallest group of respondents were aged between 29 and 31. The figure 10 below shows the percentages of the respondents' age. (Table 2.)

Table 2. Gender

Female	57.1 %
Male	41.1 %
Prefer not to say	1.8 %

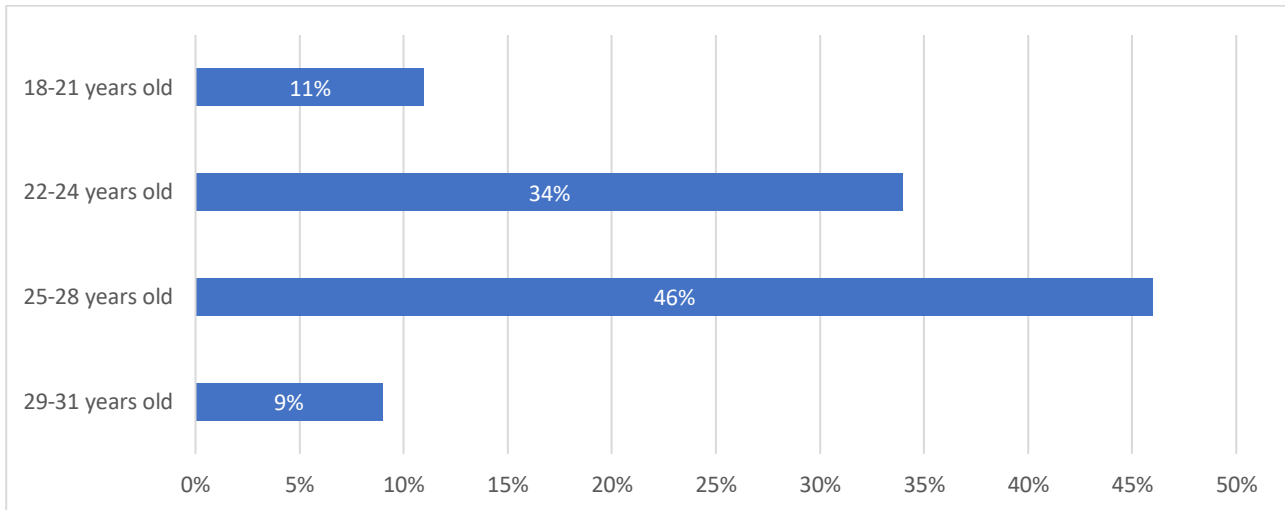


Figure 10. The age distribution of respondents

In the survey, as background questions, the respondents were asked about their mobile banking habits and possible concerns they have regarding mobile banking. The results show that Finnish consumers are handling their everyday banking mostly electronically. This is evident from the fact that 89 % of the respondents indicated that they use mobile apps as their main channel for banking. Only 9 % of the respondents handle their banking in person at a local branch office. In the question of which banking channels, the respondents are using, it was possible to choose multiple options. For example, if a respondent is using both online banking and mobile app for banking, he could choose both options in this question. The figure 11 below shows these results.

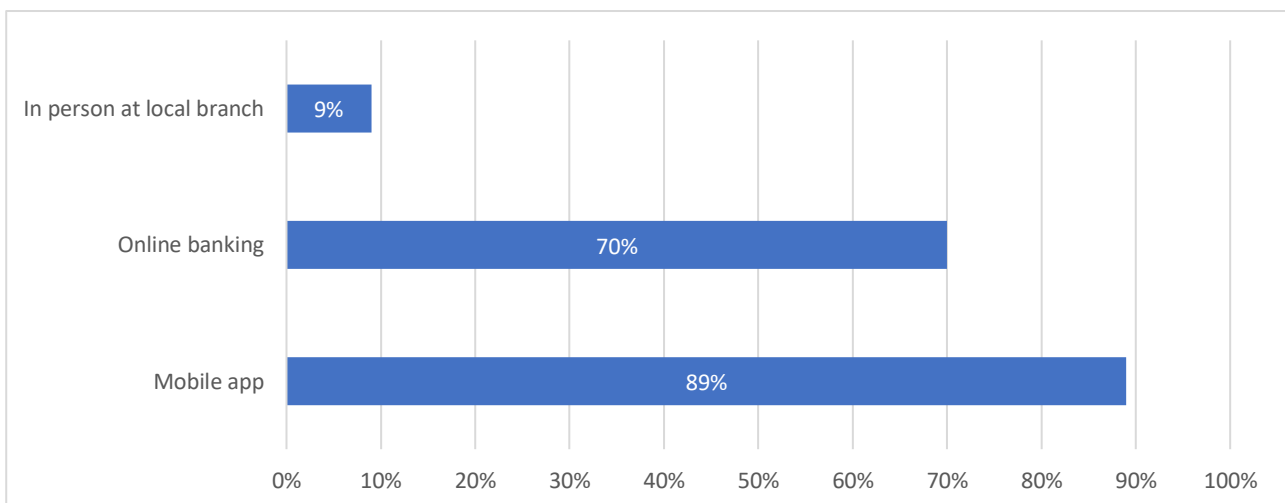


Figure 11. The respondents' use of different banking channels

The respondents who answered that they are not using a mobile app for banking were asked a follow-up question on what the reasons for it are. In this question, the respondents were able to choose multiple options as well. There was only a total of 5 respondents to this question, but as can be seen from figure 12 below, the main reasons for respondents not to use mobile applications for banking were concerns about the security of mobile banking, the lack of trust in the technology and that the banking needs of respondents were met without mobile banking.

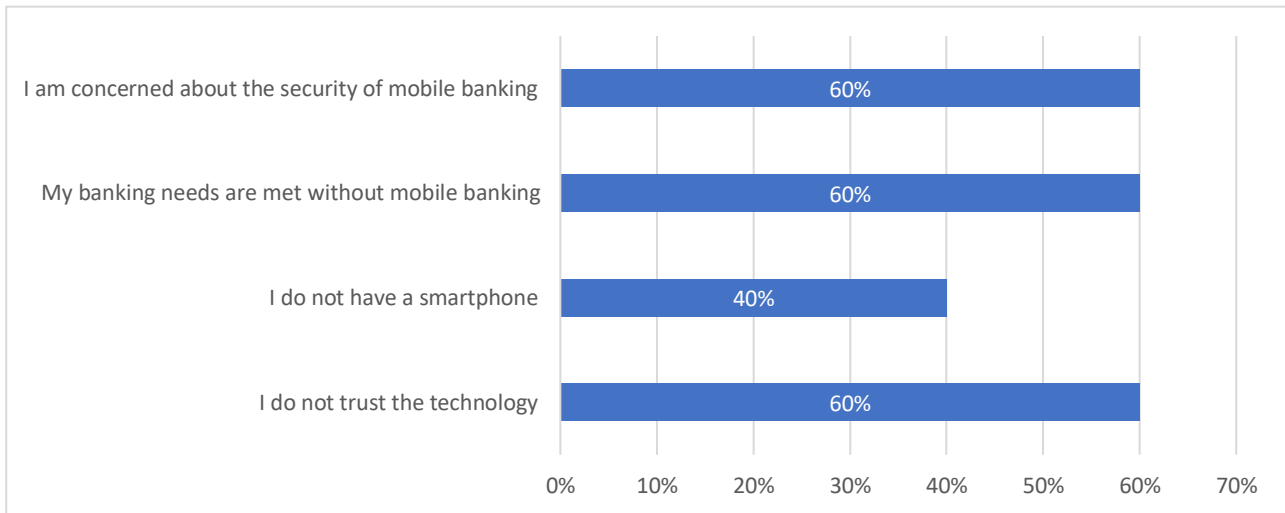


Figure 12. Consumers' reasons for not using mobile apps for banking

Even though most of the survey respondents are currently using mobile apps as their main channel for banking, digital-only banks have not yet overtaken traditional banks in terms of popularity. This can be seen from the survey question which it was asked whether the respondents have a bank account only with a traditional bank, a digital-only bank, or both. Most of the respondents (73 %) had a bank account with a traditional bank only. Although the use of digital-only banks among respondents is relatively low, their use is becoming more common. 25 % of the respondents reported using digital-only banking as their main or second bank while only 2 % stated that they have an account with a digital-only bank only. Figure 13 shows these results.

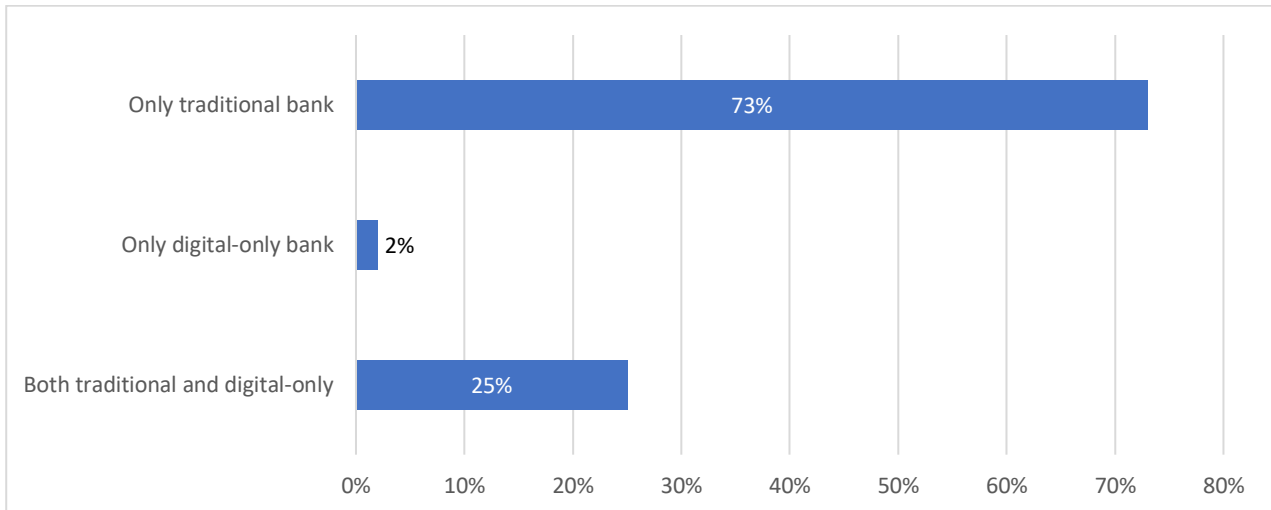


Figure 13. The types of bank accounts respondents have

To define the current state of trust towards mobile banking among Finnish consumers, the respondents were asked how safe they consider mobile banking from a scale of very unsafe to very safe. According to the results, over half of the respondents (52 %) consider mobile banking very safe, and 37 % somewhat safe. The author believes that the age group selected for this study has an impact on the results as the younger generation is used to using mobile devices and handling their banking electronically. (Figure 14.)

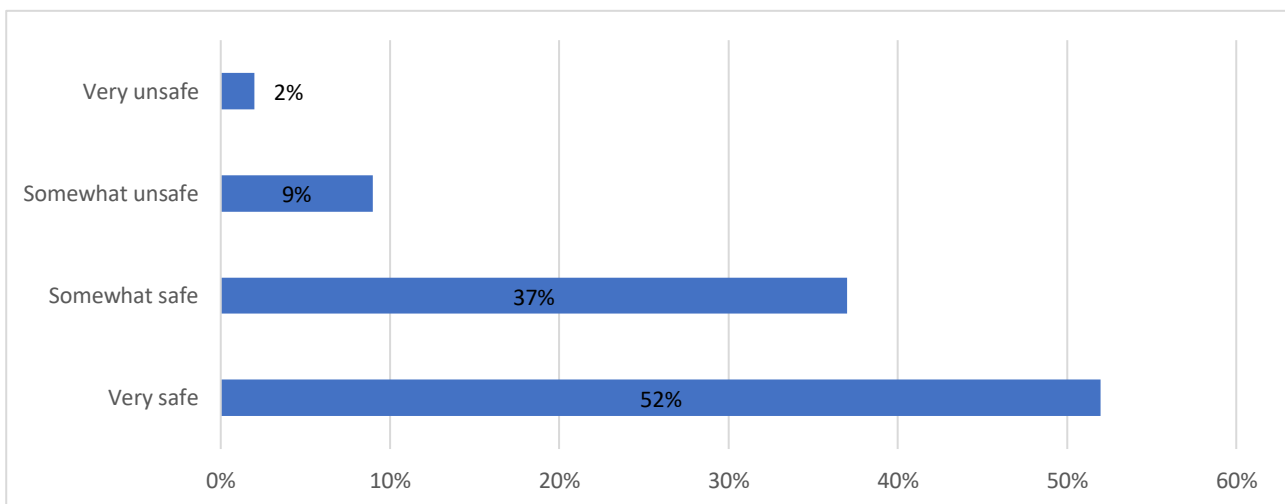


Figure 14. The level of trust towards mobile banking

The respondents were asked whether they have any concerns regarding mobile banking and if they do, what the main concerns are. The respondents were able to choose multiple concerns. The results can be seen from the figure 15 below. Around one third of the respondents did not have any concerns with mobile banking. On the other hand, 57 % stated that they were concerned about the data security, while over half of the respondents felt that technical issues were affecting their trust towards mobile banking. (Figure 15.)

“Usability”

“The lack of expertise”

“The app does not always work properly”

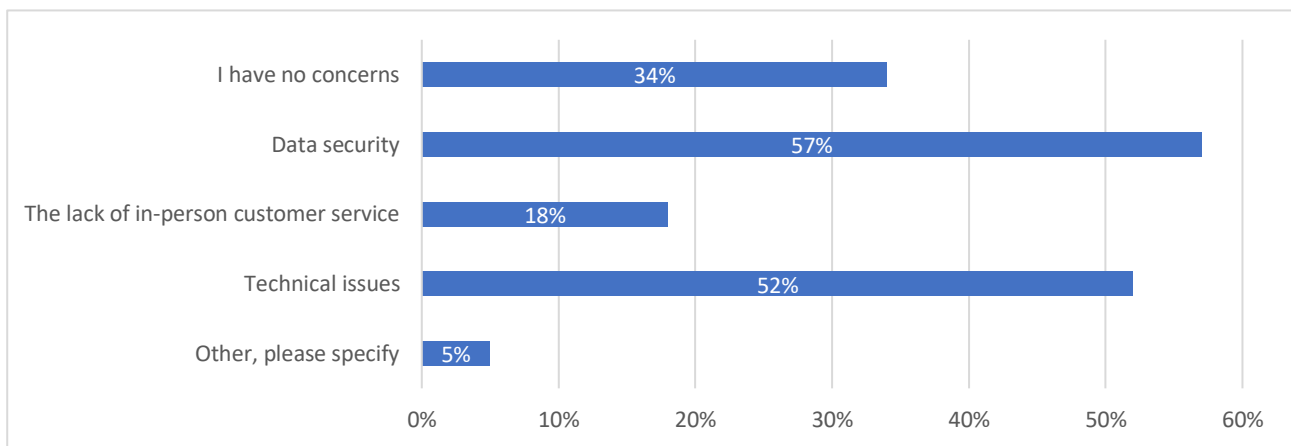


Figure 15. Consumers' concerns with mobile banking

5.2.2 Consumer awareness of Neobanks

Perhaps the biggest challenge from the point of view of neobanks is simply that consumers are not particularly aware of them and the opportunities they bring. This is evident from the survey question asking respondents about their perception of neobanks. Half of the respondents (50 %) had never heard of the term "neobank" and 11 % of respondents have heard the term but do not know what it means. This means that only 39 % of respondents feel that they are at least somewhat familiar with the term "neobank". Even among them, 16 % have only read about the subject and do not understand it beyond the level of the term. 23 % of all consumers surveyed feel they understand well or very well, what neobank means. (Figure 16.)

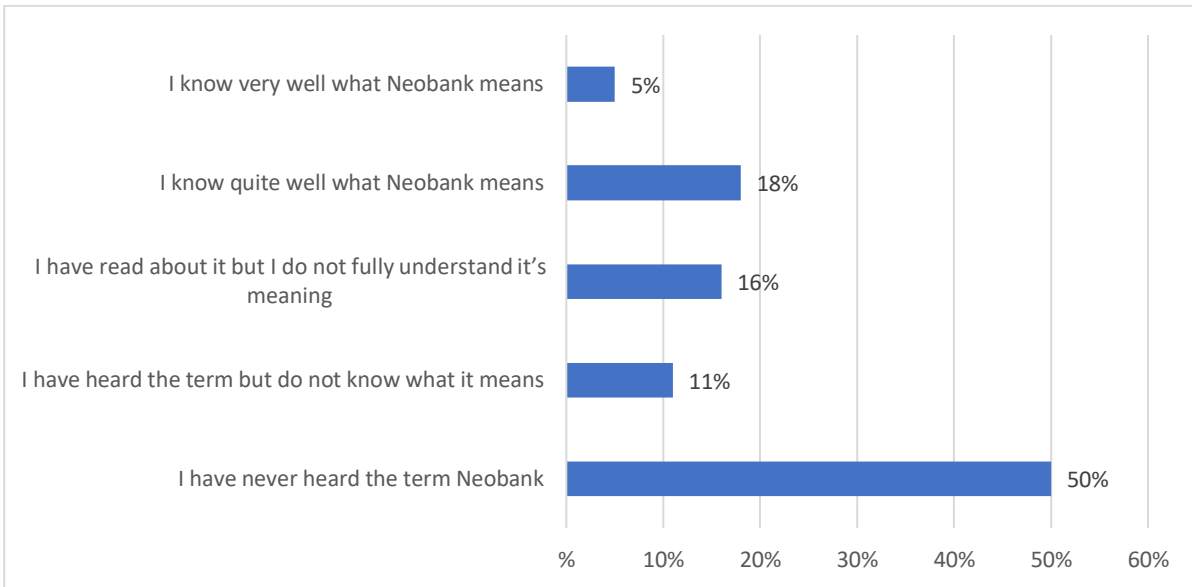


Figure 16. Consumers' perception of Neobanks

However, there are differences between respondents when comparing the responses between different age groups. The results show that the youngest age group is the least familiar with neobanks while the age groups most aware of neobanks are 29-31- and 25-28-year-olds. (Figure 17.)

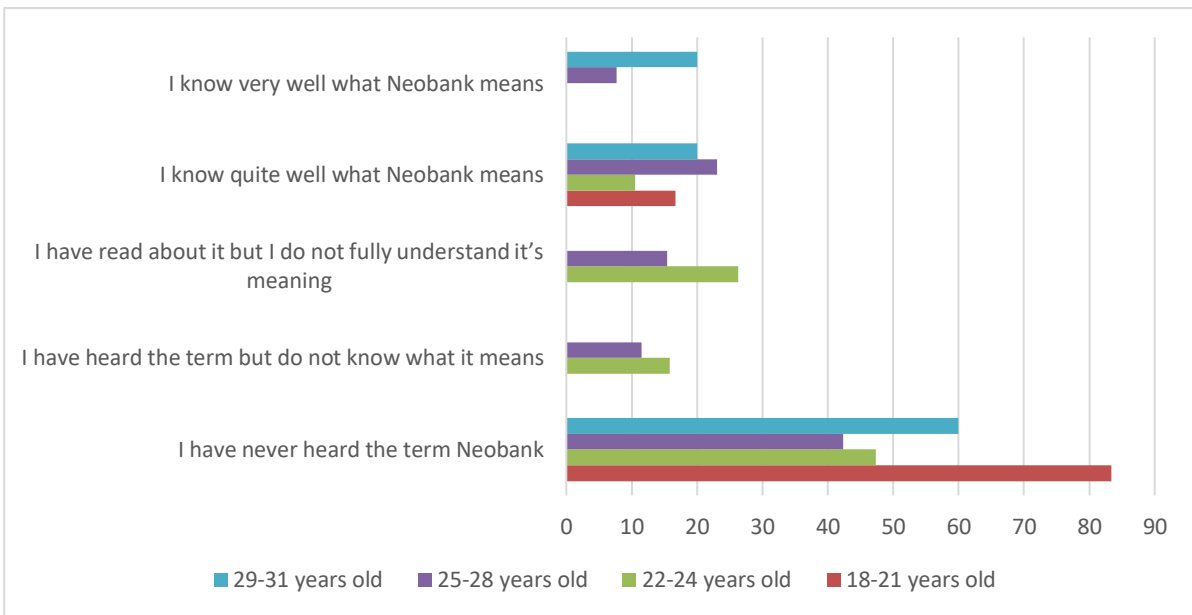


Figure 17. Consumers' perception of Neobanks based on the age groups

Those respondents who had at least heard about the term “neobank”, were asked which channel they had heard about the concept. There was a total of 41 responses to the question from which 49 % stated that they had heard about neobanks from either internet or social media. The second largest source of information was friends or colleagues. (Figure 18.)

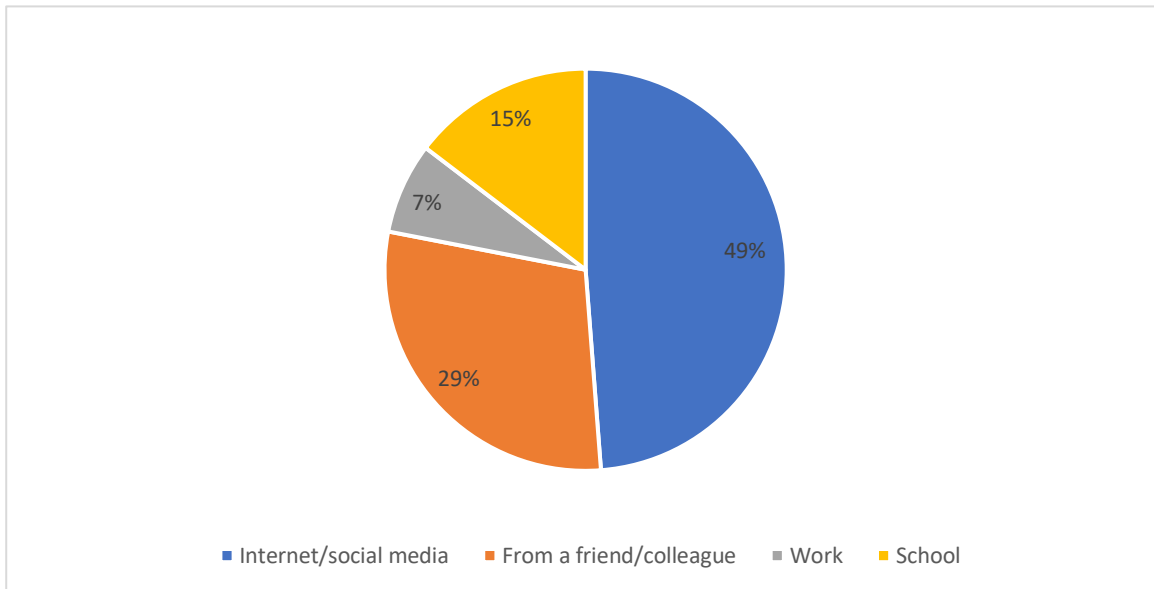


Figure 18. Channels through which consumers have heard about Neobanks

As a follow-up question, the questionnaire asked various statements related to the neobanks. Only those respondents who felt that they had at least some understanding of the level of understanding of what a neobank is. These were the 23.2 % of all respondents mentioned above respondents, i.e., 13 respondents in total. The following statements made were:

- a. Neobanks offer more personalized experiences than traditional banks
- b. Neobanks offer lower costs and higher interest on saving accounts
- c. I can access my account at anytime and anywhere through my phone
- d. Managing my finances is easier and quicker
- e. I can open a Neobank account in just few minutes

Respondents were asked to indicate whether they agreed, somewhat agreed, disagreed, or strongly disagreed with the previously mentioned statements.

Of the respondents in the above group, over half of the respondents (61,5 %) agreed or somewhat agreed that neobanks can offer more personalized experiences than traditional banks. Almost 70 % of the respondents agreed or somewhat agreed with the statement that neobanks offer lower costs and higher interest on savings. 69,2 % of the respondents agreed that with a neobank, it is possible to access an account at anytime and anywhere through a smartphone.

On the other hand, 30 % of the respondents feel that managing finances through a neobank would not be any quicker or easier. Most of the respondents agreed that a neobank account can be opened in just a few minutes. These results can be seen from the figure 19 below.

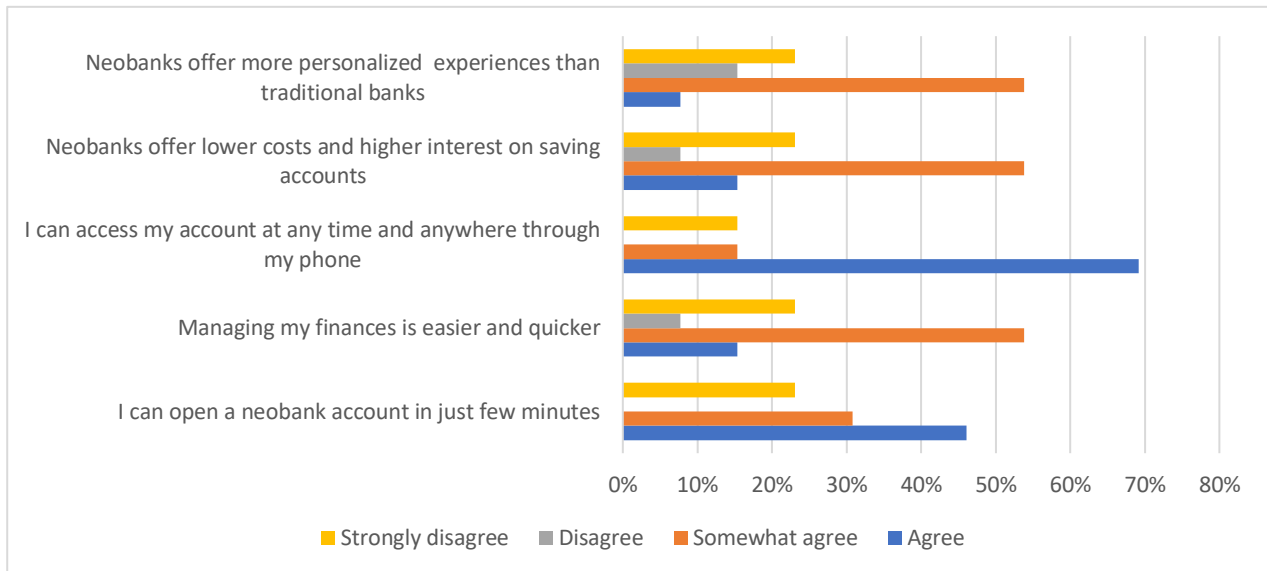


Figure 19. Comparison of the impact of respondents' level of knowledge of Neobanks, on their perception of Neobanks

5.2.3 Consumers' interest towards Neobanking services

As can be seen from figure 20 below, 46 % of the respondents are interested in opening an account with a neobank in the future while 38 % were not interested. 16 % of the respondents already had an account with a neobank which was surprising for the author. Those respondents who answered “no”, were asked to provide a reason for it. Examples of these reasons can be seen under this paragraph. Many of the respondents that were not interested in opening an account justified their answer by not being aware enough of the concept or neobanks' benefits or that they are happy with the traditional bank account that they currently have. (Figure 20.)

“Wouldn't choose bank because it's purely a neobank, but could if it would be more suitable for my needs at the time, wouldn't matter if neo or not”

“I'm happy with my current bank”

“I do not know what the benefits are”

“For my knowledge neobanks are small scale. I trust more in bigger corporations and old-fashioned banks. Also, if there is lack of customer service, I will not trust the bank. It feels like a hoax”

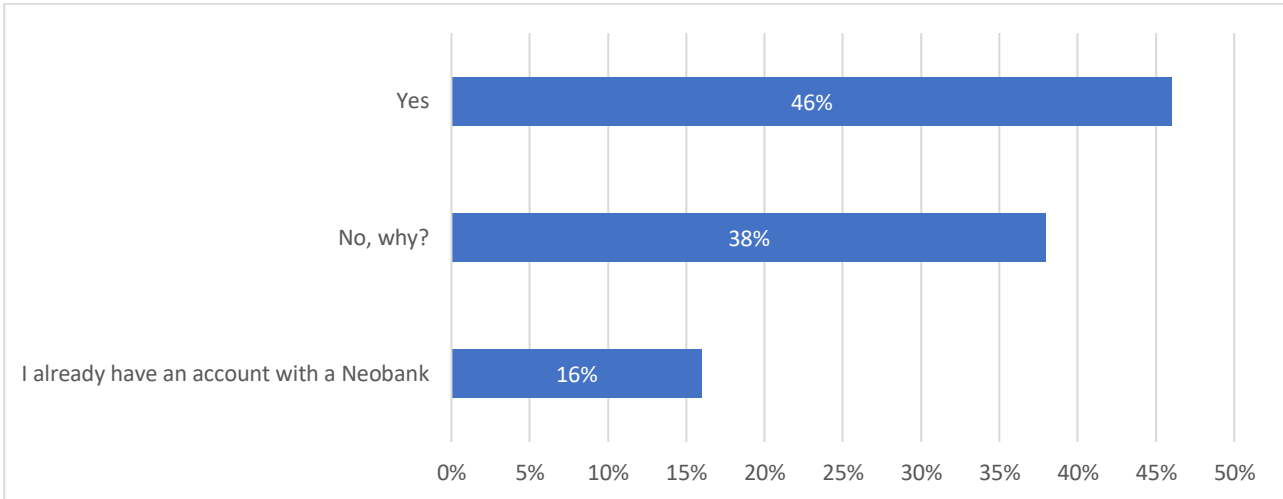


Figure 20. Consumers' interest to open an account with a Neobank

The respondents who stated that they had not heard about neobanks or had heard but were not completely certain what a “neobank” means, were asked whether they would be interested in learning more about neobanking as a concept. Positively, most of the respondents (83,7 %) stated that they would be interested in learning more whereas 16,3 % were not interested. (Figure 21.)

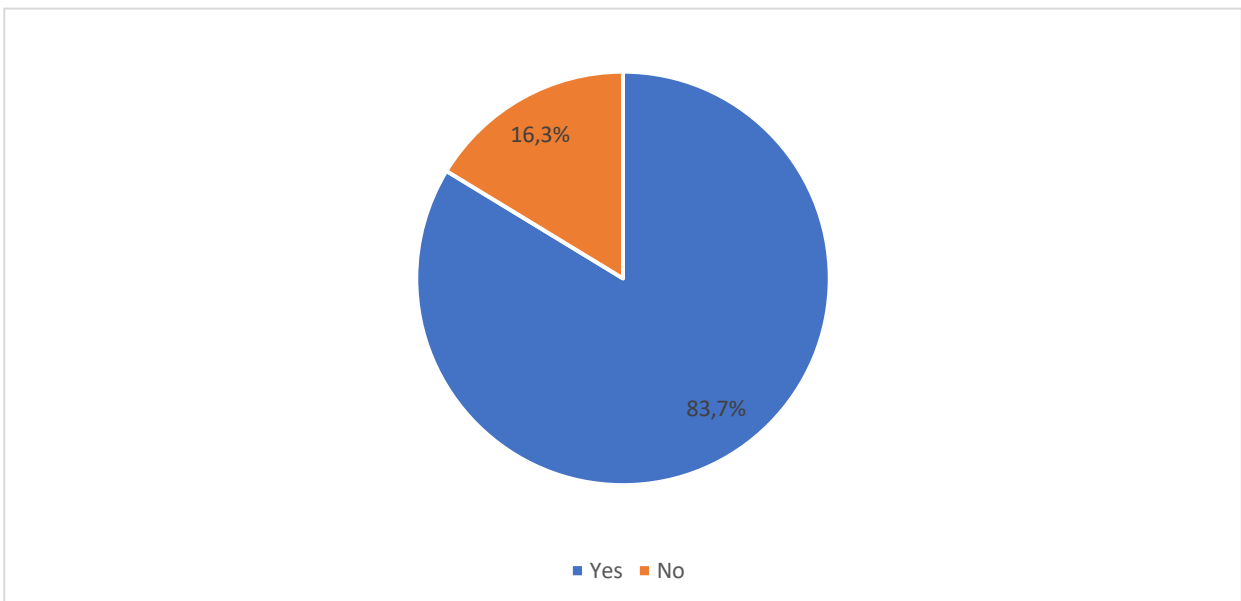


Figure 21. Consumers' interest to learn more about Neobanks

If a respondent answered “yes” to the question of whether he/she wants to open an account with a neobank, it was then asked what kind of services would appeal interesting to the consumer if she/he would open an account. Debit and credit cards, money transfer options, money-tracking tools and stock trading received the most interest among the respondents. The least interesting services were cryptocurrency trading and insurance services. (Figure 22.)

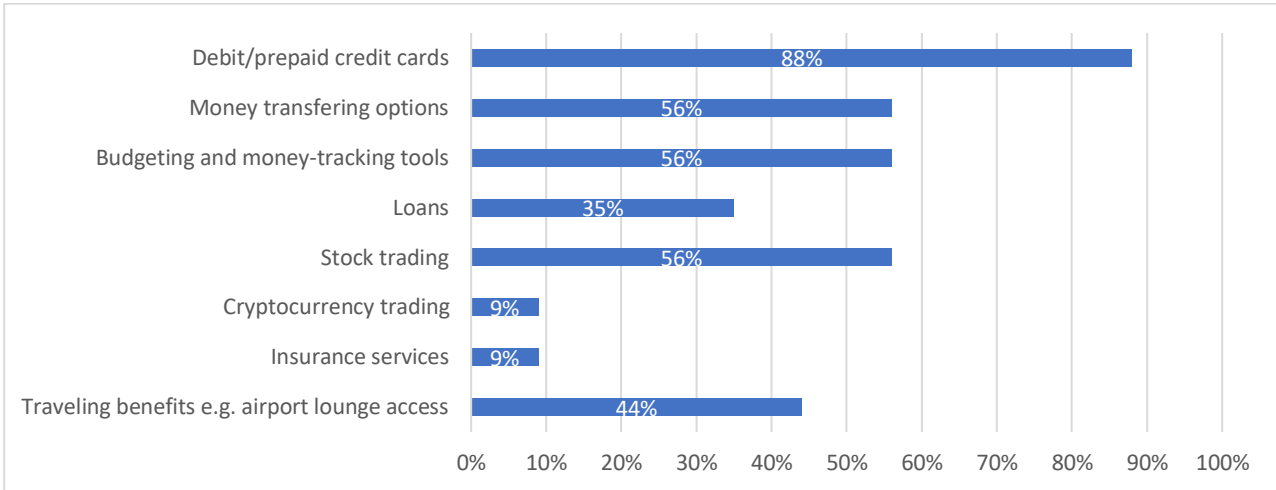


Figure 22. Neobanking services that interest Finnish consumers

5.2.4 The likelihood of consumers adopting Neobanking services

Although 50 % of the survey respondents had never heard about neobanks, surprisingly many were interested in opening an account with a neobank in the future. The group with the most interest (58 %) in opening an account with a neobank was the age group of 22-24, followed by respondents between ages 29 to 31. The author was surprised by the fact that the youngest respondent group was least interested in opening a neobank account. This might be caused by the lack of knowledge of neobanks. (Figure 23.)

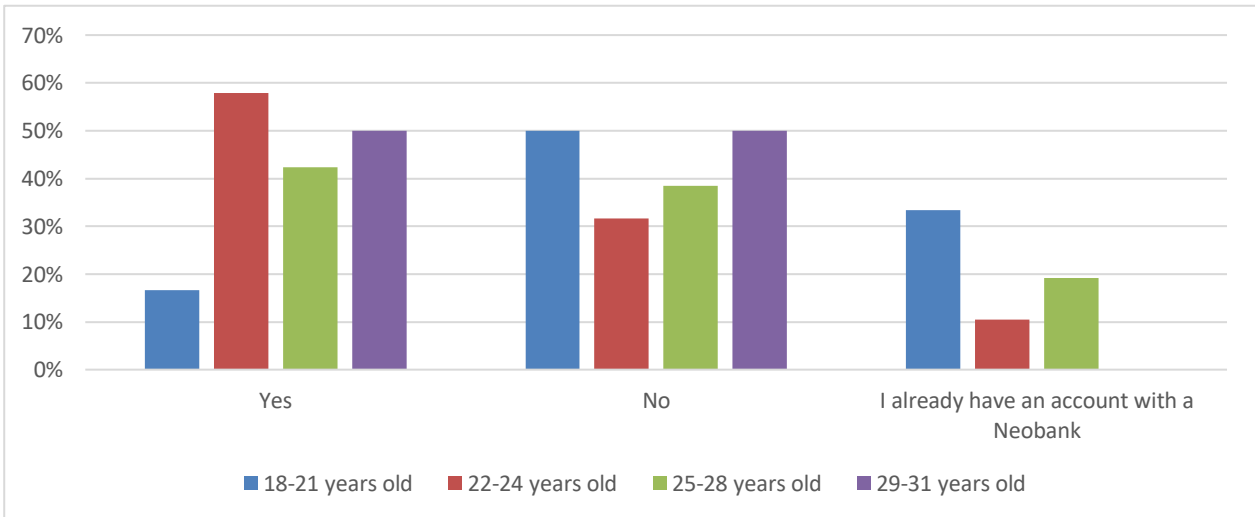


Figure 23. Comparison of the respondents age on the interest to open an account with a Neobank.

To be able to evaluate the level of consumers' trust in neobanking, the questionnaire asked respondents if they would trust neobanking as the future of banking. Over half of the respondents (52 %) answered "maybe" and around one-third (36 %) responded that they would trust neobanking as the future banking. The respondents who stated that they would not trust neobanking in the future were required to give a reason for it. A couple of selected reasons can be seen below. (Figure 24.)

"Too difficult"

"I consider the traditional banks more trustworthy"

"I don't think people will trust them"

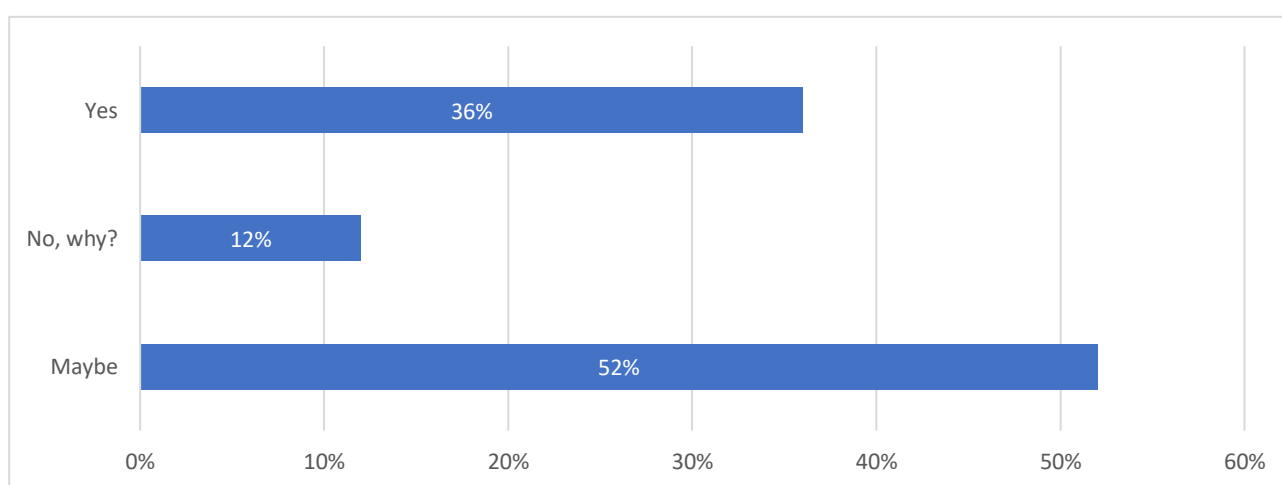


Figure 24. Consumers' trust on neobanks as the future of banking

5.2.5 Factors limiting the interest towards Neobanks

The consumers who were not interested in opening an account with a neobank in the future were asked about the factors that are behind the choice. A total of 21 respondents belonged to this group which was 37,5 % of the whole respondent group. 76 % of the respondents stated that the reason for not being interested in neobanks is that they are not aware enough of the whole concept. The second biggest reason is simply not being interested, and the third biggest is the lack of trust in technology. (Figure 24.) From these results, we can conclude that consumers' lack of knowledge on the subject is the main reason why they are not interested in using these services. Increasing consumer awareness would give consumers the confidence to use these new banking service providers.

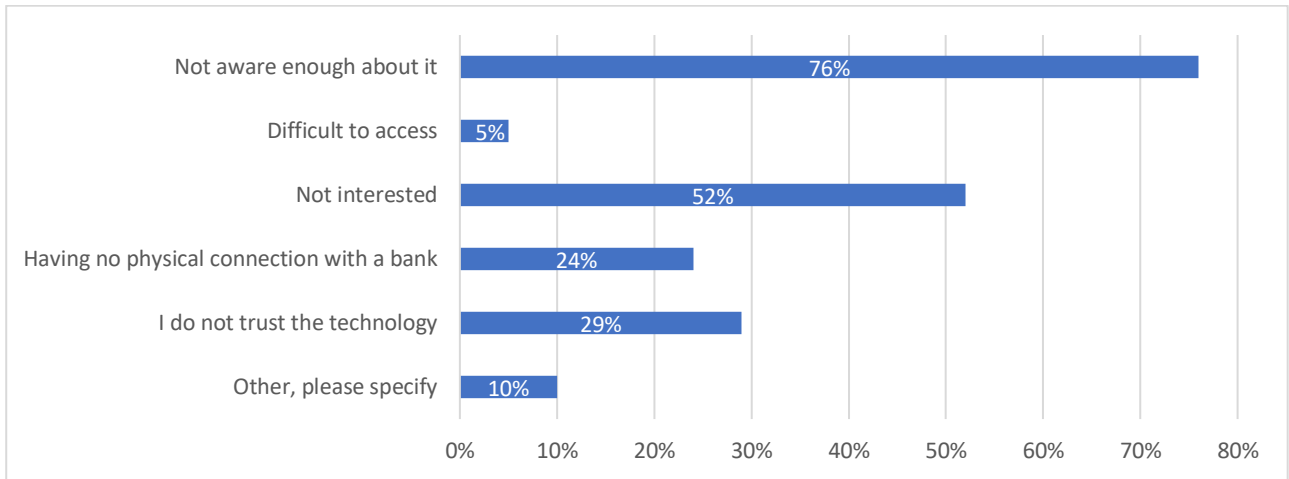


Figure 25. Factors that limit the consumers' interest towards Neobanks

6 Conclusions

This chapter presents the key findings of this thesis. After presenting the key findings, the author evaluates the reliability and validity of the thesis. The chapter also presents recommendations for future research and reflection on the author's learning process.

The goal of this thesis was to find out what is the level of awareness and interest in neobanks among Finnish consumers between the ages of 18 and 31. The sub-problems of the study were to map out the current level of awareness towards neobanks, how likely would consumers change their banking to a neobank, what kind of neobanking services would be interesting to Finnish consumers, and lastly, what factors are limiting the consumers' interest towards neobanks.

The achievement of the thesis objectives can be considered successful. Research concerned a very topical subject, on which the survey provided new data. The theoretical base carefully selected for the thesis supported the data obtained from the survey and helped in interpreting the data.

6.1 Key Findings

The results of the survey show that most Finnish consumers are not aware of neobanks, or if they are, their knowledge of the subject is very limited. Interest and trust in neobanks vary a lot among respondents, but in general, it can be observed that Finnish consumers are potential customers for neobanks and the author believes that digitalization and technological development will contribute to the acceptance and adoption of neobanks in Finland.

As stated by Schmid (2020), trust plays an essential role when consumers are choosing their banking services provider. Whereas in traditional banking the trust between the consumer and bank is easier to establish, in the digital banking environment the process of trust is more complicated. This same phenomenon can be seen in the results of this thesis. Many respondents were familiar with the term "neobank" but are quite unfamiliar with its meaning. Although most of the respondents are familiar with using mobile banking and handling their banking digitally, Finnish consumers' confidence in traditional banks remains strong. Despite the development of technology in the banking sector, human contact in the purchase of banking services is still a key element in the process of purchasing banking services. (Ennew & White 2013, 145-146.) To encourage consumers to switch to a neobank, they would need to be much better informed about the neobanking model and its benefits. Despite the low level of adaption of digital-only banks, Finnish consumers consider mobile banking either a very safe or somewhat safe way to handle their banking. This shows that

neobanks can thrive in the Finnish market, especially with evolving technology and digitalization and among the younger generation.

The biggest observation from the survey is that Finnish consumers' awareness of neobanks is relatively low as half of the respondents had never even heard of the term "neobank" before. To the surprise of the author, the youngest consumers were the least aware of the term while the eldest was the most knowledgeable. This could be a result of the fact that neobanks started to emerge already in the 2010s, after which they received the most media attention. As stated by Ennew & Waite (2013, 143-144), consumers usually gather the information for their purchasing decisions from external sources such as social media, other consumers, or third parties. The results of this research also show that most of the respondents had first heard about neobanks either through their friends or social media which reinforces the idea that consumers may often become interested in specific services simply because they hear about them from someone they know. As few consumers spend much time researching and comparing the services offered by different banks, information and recommendations from external sources such as social media and acquaintances play a major role in consumers' choice of banking service provider.

From a positive point of view, those respondents who had heard about neobanks, agreed that neobanks can offer more personalized experiences and lower costs compared to traditional banks. Neobanks were also considered easy and quick to access but one-third of the respondents felt that using a neobank would not make banking any easier. Over half of the survey respondents were interested in opening an account with a neobank in the future or learning more about the concept which shows that there is interest in the concept among Finnish consumers. The author was surprised with the result of 18–21-year-olds were the least interested in neobanking. However, this can be reasoned by the fact that the same age group was also the least aware of the concept of neobanks. When it comes to consumers' trust towards neobanks, the results show that neobanks could be trusted as potential banking service providers among Finnish consumers in the future. The main factors limiting Finnish consumers' interest in neobanking are the lack of awareness or interest in the concept of neobanks and the lack of trust in new services and technology.

From these results, we can conclude that consumers' lack of knowledge about neobanks and their benefits does indeed affect how neobanks are perceived by consumers and their willingness to explore neobanks at a deeper level. However, most Finnish consumers aged 18-31 are used to using their phones to bank digitally, so it could be argued that the main barrier to young adults not giving neobanking a try is that they are not familiar enough with neobanks and their operating models.

Based on the information gained from the research part of the thesis, it can be concluded that even if a considerable number of new neobanks were to enter the market, it is difficult to see consumers starting to use them on a large scale anytime soon. Therefore, in the short term, banks need not worry about a loss of customers or a significant reduction in revenues from their services. As described in the study carried out for this thesis, Finnish consumers have strong trust in traditional banks, while neobanks are perceived as less reliable as banking service providers. However, in the long term, consumer behavior and attitudes may change fundamentally as digitalization moves forward and the author believes that Finland could offer a very good consumer market for neobanks in the future.

In Finland, purely digital banks that are based completely on digital solutions, have not existed for a long time. As a result, Finnish consumers have become accustomed to the fact that banking can be done digitally, but in the event of any problems, they can walk to the nearest branch office of their main bank. In the case of neobanks this is not the case, this may create uncertainty among consumers and thus discourage the adoption of neobanking services.

6.2 Reliability, Validity and Relevance

The target group of the survey was defined as Finnish consumers aged 18-31. According to Statistics Finland, from Finland's population in 2021, over 920 000 people were aged between 18 and 31. It could therefore be assumed that the survey population of this research included all individuals aged between 18 and 31. (Statistics Finland 2021.)

56 people in the target group responded to the survey, making the survey sample size 56 statistical units. According to Heikkilä (2014), the indicative reference sample size for a national consumer survey should be 500-1000 statistical units. Therefore, the sample size of the survey is not sufficiently large enough for the results to be generalizable to all Finnish consumers between ages 18 and 31. However, the analysis of the survey results has made use of the groups within the population, for example when comparing differences between different age groups.

The low score of answers remarkably influenced the reliability of this research. As the response rate was almost non-existent compared to the population, the results of the survey cannot be considered reliable based on the response rate. Results and their generalizability to the population should be critically examined. If the author was to carry out the same survey again, she would try to pay more attention to sample collection and ensure that the number and variety of responses to the survey would be greater.

The author of the thesis feels that she was successful in her choice of research strategy and feels that the chosen methods measure the research problem well. The questions of the questionnaire were tested with five test subjects before the questionnaire was published. The testing was carried out as a face-to-face interview and the interview focused specifically on the layout and content of the questions. The interviews were conducted to ensure that the respondents understood the questions as intended by the author. The questions in the survey were clear and the questions were used to give answers to the sub-problems. The questions were multiple-choice or statements using a Likert scale. Thus, the error of interpretation of the results of interpreting the results is low, which supports the reliability of the study.

The results were compiled using Webropol, from which the data was transferred to Excel for further processing. Thus, there is almost no possibility of error in the processing and presentation of the results. However, with a structured questionnaire, there is always a risk that the respondent may have understood the question differently from the way the author intended it. Thus, there is a possibility of random error in the survey results. In addition, the survey was published on the author's social media, which means that the respondents are likely to include many people close to the author. For this reason, certain age groups emerged as larger groups of respondents than others. The author may also have opened the subject and content of her thesis to her close circle in more detail before the survey was published and it is, therefore, possible that, for example, awareness of neobanks is higher in the survey sample than in the average population. There was also some loss of response, as the questionnaire was opened 171 times, which means that around 67 % of those who opened the questionnaire did not respond.

6.3 Further Research

Research on this topic has been interesting and current, but the results of this thesis are presented from a third-party perspective so that new neobanks or other third-party service providers can take the results into account when designing their banking services. It would be interesting to research the new competitors from the banks' perspective as well. It would be interesting to examine whether banks perceive the neobanks as a threat and whether they would seek to make it more difficult for neobanks to establish themselves in the market.

As this research only presented the main points of neobanks' operation and business models, the second idea for a research topic would be to look more into the operation of neobanks and their plans from neobanks' point of view. This would, however, need at least one commissioning neobank to give information from the "inside" which might cause challenges as banks are not usually very open to sharing information. It could also be valuable to research how consumers' attitudes and perceptions differ based on their education or country. Wider research with more respondents

from different countries would be interesting. As this research only focused on Finns between ages of 18 to 31, further research could include other age groups and to explore the differences on the awareness and interest in neobanking between different age groups.

6.4 Reflection on Learning

The thesis process officially started in May 2022. The subject of the thesis had been on the author's mind since the beginning of her studies in Haaga-Helia but the final demarcation of the topic occurred in May 2022 during the thesis planning course. The choice of topic was extremely successful, as in May 2022 there had not yet been any work in Finland that could be compared to a thesis on purely consumer attitudes toward neobanks. Of course, the risks associated with the choice of the topic were high, as the concept of neobanks is current and there is little academic source material available on it.

The thesis process went largely according to the thesis plan created in May 2022. After finishing the thesis planning course in May 2022, the author started to gather data and sources for the theoretical part of the research. During the entire process of the thesis, as many different sources as possible have been used. The author tried to use both the written knowledge base and the internet sources based on what source would best support the research topic. The thesis has been written following the reporting guidelines of Haaga-Helia University of Applied Sciences, so the structure of the thesis is logical, and each chapter supports the other.

During the thesis project, the author learned more about academic research and writing as well as about project management which will benefit the author in future studies and career. One of the key learnings the author made during the process was the importance of planning. Without proper planning, the author would have not succeeded in the project during the given timeframe. Even though a few phases of the project took longer than expected and the original thesis plan needed to be modified, the project was accomplished as planned. The motivation and interest in the topic of neobanks helped the author to keep up with the schedule of the project.

It could be said that the objectives of the thesis were achieved, although the material obtained from the research cannot be used for the entire population and the results are not as reliable as the author wished them to be. However, based on the results, the author was able to produce answers to the sub-problems and the thesis process went smoothly without any major problems. The self-study of the topic has given the author a huge amount of useful new information, which she can also use in working life and possible future studies.

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Appendices

Appendix 1. Survey questions

Survey on Finnish consumers' attitudes towards Neobanking

Dear Respondent!

This survey will examine consumers' habits in using mobile-only banking services and also how they feel about the new entrants to the banking world, Neobanks.

Definition of a Neobank: Financial institution that offers banking services digitally without any physical branches and all the services provided are digitalized

This survey is part of a thesis for a Bachelor's degree in International Business. All responses are anonymous. The questionnaire consists of 3 sections and should take a maximum of 5 minutes to complete.

Thank you very much for your time!

Seuraava

1. Gender

- Female
- Male
- Prefer not to say

2. What is your age?

- 18-21 years old
- 22-24 years old
- 25-28 years old
- 29-31 years old

3. Which banking channels do you normally use?

- In person at local branch
- Online banking
- Mobile app
- Other, please specify

4. If you are not using a mobile application for banking, what is the reason?

- I am concerned about the security of mobile banking
- My banking needs are met without mobile banking
- I do not have a smartphone
- I do not trust the technology
- It is too difficult to use mobile banking
- Other, please specify

5. Do you have a banking account with a traditional bank, a digital-only bank (e.g. neobank) or both?

- Only traditional bank
- Only digital-only bank
- Both traditional and digital-only

6. How safe do you consider mobile banking?

- Very unsafe
- Somewhat unsafe
- Somewhat safe
- Very safe

7. What concerns do you have with mobile banking?

- I have no concerns
- Data security
- The lack of in-person customer service
- Technical issues
- Other, please specify

8. What is your perception of Neobanks?

- I have never heard the term Neobank
 I have heard the term but do not know what it means
 I have read about it but I do not fully understand it's meaning
 I know quite well what Neobank means
 I know very well what Neobank means

9. Where have you heard about Neobanks? (you can choose multiple options)

- Internet/social media
 From a friend/colleague
 Work
 School
 Other, please specify

10. Would you be interested in learning more about Neobanks?

- Yes
 No

11. Neobank means the following:

	Agree	Somewhat agree	Disagree	Strongly disagree
I can open a neobank account in just few minutes	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Managing my finances is easier and quicker	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
I can access my account at any time and anywhere through my phone	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Neobanks offer lower costs and higher interest on saving accounts	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Neobanks offer more personalized experiences than traditional banks	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

12. Would you be interested in opening up an account with a Neobank in the future?

- Yes
- No, why?
- I already have an account with a Neobank

13. What kind of Neobank services would you be most interested in?

- Debit/prepaid credit cards
- Money transferring options
- Budgeting and money-tracking tools
- Loans
- Stock trading
- Cryptocurrency trading
- Insurance services
- Traveling benefits e.g. airport lounge access

14. Reasons why I am not interested in opening an account with a Neobank

- Not aware enough about it
- Difficult to access
- Not interested
- Having no physical connection with a bank
- I do not trust the technology
- Other, please specify

15. Would you trust Neobanking as the future of banking?

- Yes
- No, why?
- Maybe

Appendix 2. Survey results

Table 1. Gender

	n	%
Female	32	57.1%
Male	23	41.1%
Prefer not to say	1	1.8%

Table 2. Age distribution of respondents

	n	%
18-21 years old	6	10.7%
22-24 years old	19	34.0%
25-28 years old	26	46.4%
29-31 years old	5	8.9%

Table 3. The use of different banking channels

	n	%
In person at local branch	5	8.9%
Online banking	39	69.6%
Mobile app	50	89.3%
Other, please specify	0	0.0%

Table 4. Summary answer to the question: If you are not using a mobile application for banking, what is the reason?

	n	%
I am concerned about the security of mobile banking	3	60.0%
My banking needs are met without mobile banking	3	60.0%
I do not have a smartphone	2	40.0%
I do not trust the technology	3	60.0%
It is too difficult to use mobile banking	0	0.0%
Other, please specify	0	0.0%

Table 5. The types of bank accounts respondents are using

	n	%
Only traditional bank	41	73.2%
Only digital-only bank	1	1.8%
Both traditional and digital-only	14	25.0%

Table 6. Respondents' perception of mobile banking security

	n	%
Very unsafe	1	1.8%
Somewhat unsafe	5	8.9%
Somewhat safe	21	37.5%
Very safe	29	51.8%

Table 7. Respondents' concerns about mobile banking

	n	%
I have no concerns	19	33.9%
Data security	32	57.1%
The lack of in-person customer service	10	17.9%
Technical issues	29	51.8%
Other, please specify*	3	5.4%

*Other: usability, lack of expertise, the app does not always work properly

Table 8. Consumers' awareness of Neobanks

	n	%
I have never heard the term Neobank	28	50.0%
I have heard the term but do not know what it means	6	10.7%
I have read about it but I do not fully understand it's meaning	9	16.1%
I know quite well what Neobank means	10	17.9%
I know very well what Neobank means	3	5.3%

Table 9. Channels through which consumers have heard about Neobanks

	n	%
Internet/social media	20	71.4%
From a friend/colleague	12	42.9%
Work	3	10.7%
School	6	21.4%
Other, please specify	0	0.0%

Table 10. Summary answer to the question: Interest in learning more about Neobanks

	n	%
Yes	36	83.7%
No	7	16.3%

Table 11. Summary answer to the question: Neobank means the following things:

	Agree	Somewhat agree	Disagree	Strongly disagree
I can open a neobank account in just few minutes	46.1%	30.8%	0.0%	23.1%
Managing my finances is easier and quicker	15.4%	53.8%	7.7%	23.1%
I can access my account at anytime and anywhere through my phone	69.2%	15.4%	0.0%	15.4%
Neobanks offer lower costs and higher interest on saving accounts	15.4%	53.8%	7.7%	23.1%
Neobanks offer more personalized experiences than traditional banks	7.7%	53.8%	15.4%	23.1%

Table 12. Summary answer to the question: Would you be interested in opening up an account with a Neobank in the future?

	n	%
Yes	25	45.4%
No, why? *	21	38.2%
I already have an account with a Neobank	9	16.4%

*No, why:

Answer options	Text
No	Wouldnt choose bank because it's purely a neobank, but could if it would be more suitable for my needs at the time, wouldnt matter if neo or not
No	I'm happy with my current bank
No	I already have a traditional bank account
No	I do not find them financial stable
No	I like my current one
No	I already have a good bank account
No	Have no idea what neobank is
No	Dont know What are ITS benefits
No	I do not know what the benefits are
No	For my knowledge neobanks are small scale. I trust more in bigger corporations and old-fashioned banks. Also, if there is lack of customer service i won't trust the bank. It feels like a hoax
No	Not interested to do it right now
No	Do not fully understand the benefits of it
No	I dont fully understand the concept
No	I dont think I will need one
No	No need

Table 13. The most interesting Neobanking services to consumers

	n	%
Debit/prepaid credit cards	30	88.2%
Money transferring options	19	55.9%
Budgeting and money-tracking tools	19	55.9%
Loans	12	35.3%
Stock trading	19	55.9%
Cryptocurrency trading	3	8.8%
Insurance services	3	8.8%
Traveling benefits e.g. airport lounge access	15	44.1%

Table 14. Summary answer to the question: Reasons why I am not interested in opening an account with a Neobank

	n	%
Not aware enough about it	16	76.2%
Difficult to access	1	4.8%
Not interested	11	52.4%
Having no physical connection with a bank	5	23.8%
I do not trust the technology	6	28.6%
Other, please specify*	2	9.5%

*Other: I do not trust new banks, already good bank

Table 15. Summary answer to the question: Would you trust Neobanking as the future of banking?

	n	%
Yes	20	35.7%
No, why? *	7	12.5%
Maybe	29	51.8%

*No, why:

Answer options	Text
No, why?	Too difficult
No, why?	There is always a worry whether your money is available uninterruptedly and if it is decentralised I do not trust it
No, why?	I consider the traditional banks more trustworthy
No, why?	I dont think people will trust them